AR27

PHILIPS ANNUAL REPORT 1970

PHILIPS

Translation (American edition)

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Philips from 1961 to 1970

Cover
Unexpected esthetic effects observed in the study of a solidified mixture of compounds under a polarization microscope. Investigations of this type into differences in the crystal orientation of composite materials are carried out in the Research Laboratories at Waalre, near Eindhoven.
(Magnification 2,000 times)

PHILIPS

Philips in 1970

	1970	1969
Sales		
In millions of guilders	**15,070**	13,023
Percentage increase over preceding year	**16**	12
Income from operations		
In millions of guilders	**1,280**	1,354
As a percentage of sales	**8.5**	10.4
As a percentage of total capital employed	**8.2**	10.1
Income after taxes		
In millions of guilders	**446**	528
As a percentage of sales	**3.0**	4.1
Net income		
In millions of guilders	**435**	518
As a percentage of stockholders' equity	**7.3**	9.7
Per common share of f 10 (in guilders)	**3.29**	4.09
Retained earnings as a percentage of net income	**44**	49
Dividend per common share of f 10 (in guilders)	**1.70***	1.90
Capital		
Total capital employed, in millions of guilders	**19,088**	15,246
Stockholders' equity, in millions of guilders	**6,324**	5,548
Stockholders' equity per common share of f 10 (in guilders)	**52.11**	47.43
Employees		
Total number at end of year	**359,000**	339,000
Number in the Netherlands	**98,000**	93,000

* Instead of receiving the final dividend of f 1.10 in cash, stockholders may opt to receive it in the form of common shares, chargeable to Additional Paid-in Capital, free from Netherlands taxation, in such a way that one common share of f 10 is distributed on 36 common shares of f 10.

This report includes the information received from the United States Philips Trust.

On the retirement of Mr.F.J.Philips as President

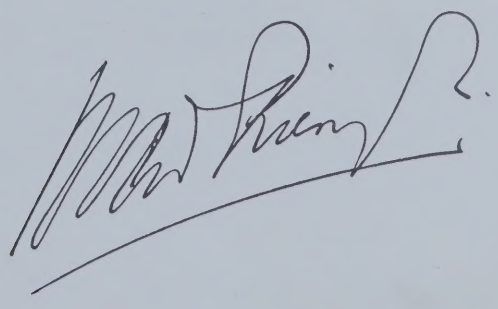
The retirement of Mr. F. J. Philips as President after more than forty years in the service of the Company is a very special event. It means that our enterprise is saying farewell to a leader of great charm and humanity who, by virtue of his personality and special abilities, has been involved in the growth of the Company in a completely unique way.

Mr. Philips joined the Company on December 1, 1930. In 1935 he was appointed deputy director and in 1939 — just prior to the outbreak of the Second World War — he became a member of the board of four directors responsible for the management of the Company. Events moved in such a way that during the war years he took charge of the tremendous tasks which had to be performed to keep the enterprise going under very difficult circumstances, thus paving the way for the enormous rate of reconstruction and expansion which began soon after the war. In 1946 Mr. Philips was appointed Vice Chairman of the Presidium and of the Board of Management, a function which since 1958 has been designated as Vice President of the Company. He became President on March 29, 1961.

In all his years with the Company Mr. Philips has devoted himself particularly to achieving mutual understanding and good personal and business relationships between all who work in our Company, as well as between them and the Company's outside relations. His numerous journeys to all parts of the world have contributed greatly to his success in this respect. Frequently, too, he has initiated progressive social views both inside and outside the Company, and has helped to evolve a social policy based on these. The social aspects of the Company have always received his particular attention. In addition, his active interest in technology has had a stimulating effect on research, development and manufacturing activities. During his presidency he has displayed great insight and enterprise in founding Philips' establishments all over the world and in fostering new activities and wide-ranging projects. All this has contributed greatly to the vigorous growth of the Philips concern in the ten years during which Mr. Philips has been President. We were delighted that the merits of Mr. Philips were recognized on the occasion of his celebration of 40 years of service with the Company by the award of two high royal distinctions: the Gold Medal for Drive and Resourcefulness, presented to him by Her Majesty Queen Juliana, and his appointment as Grand Officer in the Order of Orange-Nassau.

We, the members of the Board of Management, have always found great inspiration and friendship in our cooperation with Mr. Philips. For this we are grateful to him. We are also glad that, providing the General Meeting of Stockholders approves the proposal to appoint him to the Supervisory Board, he will continue to be closely involved with our Company as Delegate Member of that Board.

For the Members of the Board of Management,



Supervisory Board

P. C. M. van Campen	Chairman
T. P. Tromp	Vice Chairman
C. R. C. Wijckerheld Bisdom	Secretary
H. M. van Mourik Broekman	
J. W. de Pous	
W. A. de Jonge	
H. J. R. G. Hartong	
N. van der Vorm	
J. G. Bavinck	
J. Rey	

Board of Management

F. J. Philips	President
H. A. C. van Riemsdijk	Vice President
P. H. le Clercq	Vice President
D. van der Putten	Vice President
H. B. G. Casimir	
J. R. Schaafsma	
P. C. Breek	
D. Noordhof	
A. E. Pannenborg	
L. J. Wijns	
A. E. van Mourik	(since March 1, 1971)

Secretariat of the Board of Management

T. de Leeuw	Secretary
A. G. van der Heijden	Secretary
L. J. de Leur	Asst. Secretary

Report of the Supervisory Board

The Balance Sheet as of December 31, 1970, and the Income Statement for 1970, presented to you by the Board of Management, have been examined by Messrs. Klynveld, Kraayenhof & Co., Registered Accountants. Their report appears on page 45. We ask you to approve the Balance Sheet and Income Statement, in accordance with the recommendation of the Board of Management, and to adopt the dividend proposal made and the associated option recommended in the Board of Management's report.

At the General Meeting of Stockholders on April 23, 1970, Mr. C. R. C. Wijckerheld Bisdom and Mr. H. M. van Mourik Broekman retired by rotation from the Supervisory Board and were both re-elected.

At the same meeting Mr. N. van der Vorm was appointed to the Supervisory Board to fill the vacancy resulting from the death of Mr. J. A. G. Jonckheer, and Mr. J. G. Bavinck was elected to the Board pursuant to the decision of the Supervisory Board and of the Board of Management to increase the membership of the Supervisory Board to nine. Both appointments were effective as of June 1, 1970.

Mr. H. J. R. G. Hartong and Mr. T. P. Tromp retire by rotation this year and are eligible and available for re-election.

On March 17, 1970, it was decided to submit to the General Meeting of Stockholders a proposal to alter article 4, paragraph 2, of the Articles of Association, in connection with the exchange of preferred shares for common shares, and article 47, paragraph 3c, relating to the fees of the members of the Supervisory Board.

On April 23, 1970, it was decided to announce to the General Meeting of Stockholders that Mr. F. J. Philips would retire in the course of 1971 as President of N.V. Philips' Gloeilampenfabrieken and that the Supervisory Board intended to propose that, upon his retirement, Mr. Philips be appointed a Supervisory Director of the Company. Upon adoption of that proposal, we intend to appoint him Chairman and Delegate Member of the Supervisory Board. It was furthermore decided that Mr. H. A. C. van Riemsdijk would thereupon be appointed President of the Company.

We wish to take this opportunity to express our great appreciation for all that Mr. Philips has achieved during his more than forty years of service with the company, ten of which as its President. It will give us great pleasure to continue cooperating with him as a colleague, after the General Meeting of Stockholders has approved the above-mentioned proposal to appoint him to the Supervisory Board.

On September 3, 1970, it was decided to submit to the General Meeting of Stockholders a proposal to alter the Articles of Association, permitting the replacement of the preferred shares by common shares.

At the Extraordinary General Meeting of Stockholders, held on October 30, 1970, Mr. J. Rey was appointed to the Supervisory Board as of that date, pursuant to the decision of the Supervisory Board and of the Board of Management to increase the membership of the Supervisory Board to ten. At the same Meeting it was decided to appoint Mr. A. E. van Mourik to the Board of Management as of March 1, 1971. It was also resolved at this Meeting to alter the Articles of Association to permit the replacement of the preferred shares by common shares.

We wish to express here our great appreciation to the Board of Management and staff for what has been achieved in the past year under often difficult circumstances.

Eindhoven, March 18, 1971.

The Supervisory Board

P. C. M. van Campen
T. P. Tromp
C. R. C. Wijckerheld Bisdom
H. M. van Mourik Broekman
J. W. de Pous
W. A. de Jonge
H. J. R. G. Hartong
N. van der Vorm
J. G. Bavinck
J. Rey

Abridged Statement of Financial Position
(combined)

	1970	1969		1970	1969
Buildings, machinery and other property, plant and equipment	**5,514**	4,596	Stockholders' equity	**6,324**	5,548
Subsidiaries and affiliates (nonconsolidated)	**2,027**	1,012	Minority interests	**748**	681
Sundry noncurrent assets	**380**	368	Sundry provisions	**1,800**	1,513
Inventories	**5,307**	4,207	Noncurrent liabilities	**3,878**	2,227
Accounts receivable	**5,117**	4,264	Current liabilities	**6,096**	5,014
Liquid assets	**743**	799	Income available for distribution	**242**	263
	19,088	15,246		**19,088**	15,246

in millions of guilders

Abridged Statement of Results
(combined)

	1970	1969
Sales	**15,070**	13,023
Income from operations	**1,280**	1,354
Other income and charges	**— 389**	— 300
Income taxes	**— 445**	— 526
Income after taxes	**446**	528
Equity in net income of nonconsolidated companies	**+ 28**	+ 49
Minority interests	**— 39**	— 59
Net income	**435**	518

in millions of guilders

Report of the Board of Management

Our business in 1970 was marked by a substantial sales increase and a disappointing earnings trend. Sales rose by 16% from f 13 billion in 1969 to f 15.1 billion in 1970. Income from operations in 1970 totaled f 1,280 million (8.5% of sales) compared with f 1,354 million in 1969 (10.4% of sales). Net income amounted to f 435 million, which is 16% lower than in 1969. Net income per share was f 3.29 (f 4.09 in 1969).
The fact that results did not come up to expectations was due to various circumstances that made their influence felt particularly in the second half of the year.

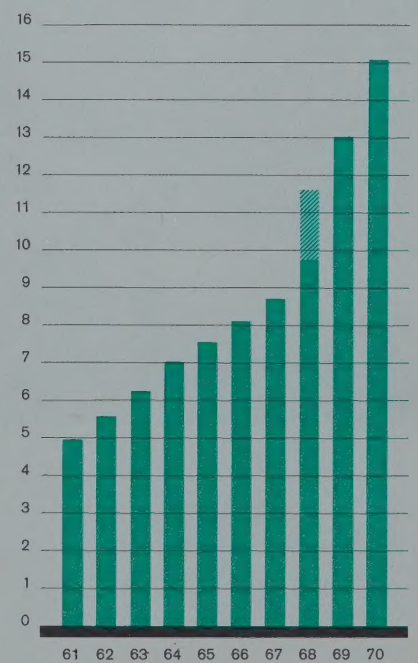
In accordance with article 45 of the Articles of Association it has been decided to retain part of the net income by way of reserve. Retained earnings for 1970, including the net result of the United States Philips Trust, are f 193 million or 44% of net income. We recommend the distribution of a dividend of f 1.70 per common share of f 10, and that stockholders be given the option to receive, instead of the final dividend of f 1.10 in cash, a distribution in the form of common shares chargeable to Additional Paid-in Capital, free from Netherlands taxation, in such a way that one common share of f 10 is distributed on 36 common shares of f 10. In so far as stockholders opt to receive common shares, the amount not distributed in cash will be retained by way of reserve.

Before proceeding with our Report we wish to pay tribute to the memory of those members of our staff who have died since our last Report was published, among whom was Mr. H. R. Remmelink, technical director of the Belgian Philips organization.

ACTIVITIES

In the United States of America and in Canada the economic situation was unfavorable. In most countries of Western Europe, however, boom conditions continued. This exerted a strong stimulus on the demand for durable consumer goods and professional products, two market areas which are inherently subject to rapid growth and in which we are very active. In the category of durable consumer goods marked increases were shown in particular by our sales of color television sets, radio receivers, gramophones and recorders. Outstanding in the professional equipment sector was the steep rise in our sales of medical equipment and of electronic office machine systems. The sales of components, both for color television receivers and for professional applications, showed vigorous growth in the first three quarters of 1970. The weaker growth in the last quarter was due to a disturbance of the market for integrated circuits and to a slowing down in the trend of sales on the market for color television receivers, especially in West Germany.
We wish to deal here in somewhat more detail with some fields of activities which are of topical interest: television, computers and integrated circuits.
Television. Our activities in the field of television, one of the fastest growing sectors of our business, comprise the manufacture and supply of products for recording, transmitting and reproducing sound and image as well as the components for these products.
The total market for color television receivers in Western Europe increased from 850,000 sets in 1969 to 1.6 million in 1970. A fall in prices caused hesitation among the public and led to a slackening of the sales trend, principally in West Germany. This affected the utilization of capacity in the factories manufacturing color television sets and related components for them; in order to reduce the resultant excessive level of inventories, shortened work weeks were temporarily introduced in these factories. We expect the growth of the market for color television products to remain at a high level for a long time to come, in spite of the incidental slackening.

World sales
in billions of guilders



• The cross-hatched part indicates the change due to the recalculation in connection with the consolidation of Pye Holdings Ltd. and the merger between N.A.P. Company, Inc. and Conelco.

The plant at Arusha (Tanzania), where radios and gramophones are produced.

The West European market for black-and-white television receivers rose from 8.6 million sets in 1969 to 8.7 million in 1970. This is partly attributable to the position which small-screen sets have come to occupy in this market. With this trend in mind we are expanding our production facilities for sets of this kind.

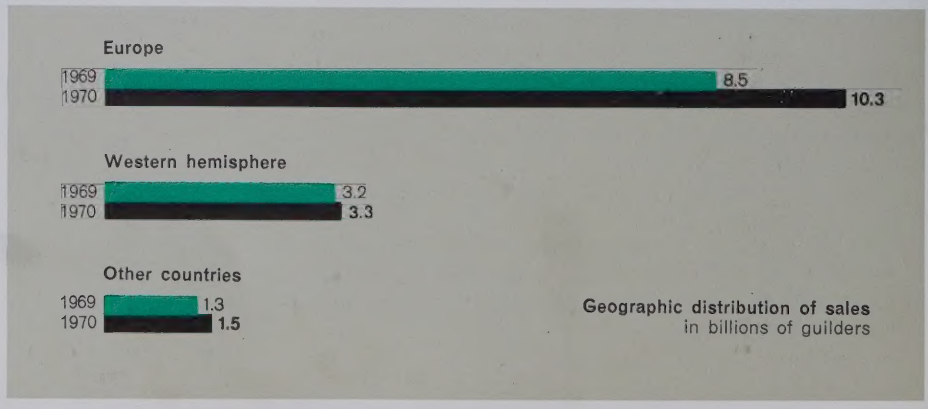
Computers. In the year under review our computer organization was appreciably strengthened and there was a marked expansion of activities in software and hardware. Supplies of general purpose computer systems, which were started in 1969, were stepped up in 1970. In the year under review the first deliveries of the P1400 system took place, followed in 1971 by the P1200 system. In the rapidly growing market for electronic office machine systems we have built up an interesting position in a short time. Business in this group began to show profits in the past year. The Data Systems division as a whole is still in the phase of development and build-up; the costs involved are charged to income.

Integrated circuits. In the course of 1970 considerable overproduction of integrated circuits in the United States of America caused the shut-down of several American firms and a glut of these products on the international market. As a result, world prices slumped and this involved appreciable losses for our integrated circuits group in 1970. We expect, however, that the growing use of these products will enable us in the coming years to achieve better results.

Sales in Europe rose steeply in 1970, going up by 20% (14% in 1969). In the United States of America and in Canada the sales trend was disappointing as a result of the unfavorable economic situation.
In 1970 68% of our sales were realized in Europe (66% in 1969), 22% in the Western hemisphere (24%) and 10% in the other countries (10%).
All product divisions contributed to the increase in sales. The Radio, Television and Record-Playing Equipment division achieved total sales of f 3.0 billion, Elcoma f 2.4 billion, Lighting f 1.9 billion, Domestic Appliances f 1.3 billion and Telecommunications and Defense Systems f 1.1 billion.
The distribution of sales in terms of consumer products (59%) and professional products (41%) underwent hardly any change in 1970 compared with 1969.

INCOME

Results in the second half of 1970 were very much below the expectation we expressed in our last Report. The main reasons for this were the absence of any distinct recovery of the economy in North America and the unexpectedly severe inflation in many other parts of the world,



reflected in particularly steep cost increases. These related both to wages and salaries and to the prices of purchased parts and materials. International competitive conditions and price control regulations in some countries in 1970 made it impossible to compensate sufficiently for the steep increases of costs by adjusting our selling prices. Nor were we able completely to offset these costs in time by improvements in efficiency. It should also be taken into account that efficiency was adversely influenced by labor troubles in various countries and by the fact that the marked expansion of production sometimes caused difficulties in the supply of components and materials, both from internal and external suppliers. Pursuant to the agreement reached with the Dutch trade unions in September 1970 to pay the sum of f 400 to all employees in the Netherlands, an amount of more than f 21 million was paid in 1970 and charged to income; the remaining 50% relating to 1971 will be charged to the accounts of that year.

Owing to these and other factors, income from operations went down from 10.4% of sales in 1969 to 8.5% of sales in 1970. It amounted to f 1,280 million.

After taxes (f 445 million) income amounted to f 446 million compared with f 528 million in 1969. This was influenced not only by the decrease of income from operations but also by the rise of financing costs. The latter was due both to an increase in the average level of interest rates and to the growth of total liabilities as a consequence of the vigorous expansion. The equity in the net income of nonconsolidated companies comprises in 1970 the part of the net income of the NKF GROEP N.V. due to us as of June 1, 1970, the effective date of take-over. Generally business in the nonconsolidated companies was also less favorable. The share of income due to minority interests decreased, owing mainly to the development of results in the United States of America.

Net income went down by 16% and amounted to f 435 million in 1970 (f 3.29 per share) compared with f 518 million in 1969 (f 4.09 per share). Net income as a percentage of stockholders' equity decreased from 9.7% in 1969 to 7.3% in 1970.

ASSETS EMPLOYED AND FINANCIAL POSITION

Investments in 1970 were at a considerably higher level than in 1969. They totaled f 1,158 million compared with f 715 million in 1969. An amount of f 608 million accrued from depreciation. The increase of capital expenditure should be seen in the light of the accelerated growth rate of our operations, both in new fields and in sectors in which we have already been engaged for some time.

The main emphasis in investments for expansion in 1970 was on computers, electronic office machine systems, integrated circuits and color television products, in particular picture tubes and other components. In addition considerable amounts were spent on extending and renewing the production capacity for products which belong to our long-established activities, such as lamps and fixtures, radio receivers and dry shavers.

In undertaking these expansions we are devoting great attention to the further rationalization of production, among other things by automation with the aid of our own computer systems, and to a more efficient distribution of production among our manufacturing centers.

The territorial distribution of investments was also very wide. Apart from those in Western Europe, large investments were made in 1970 notably in South East Asia, where we expect the markets for many of our products to show rapid expansion. In Taiwan a television picture-tube project is nearing completion, and a start was made on the building of an associated glass factory. In Surabaya (Indonesia) a plant for glass and lighting products was completed for PT Philips-Ralin Electronics. In Singapore we created facilities for various manufacturing activities.

Early in 1970 the President of Kenya, Mr. Jomo Kenyatta, officially opened the plant at Nairobi, where incandescent lamps and gramophone records are made.
Mr. F. J. Philips is seen explaining the manufacture of lamps to the President.

In a working visit to the factories at Eindhoven Mr. R. J. H. Kruisinga, Secretary of State for Social Affairs and Public Health, inspected together with Mr. F. J. Philips the first Daf bus equipped with a Stirling engine. This "clean" hot-air engine can play an important role in the prevention of air pollution.

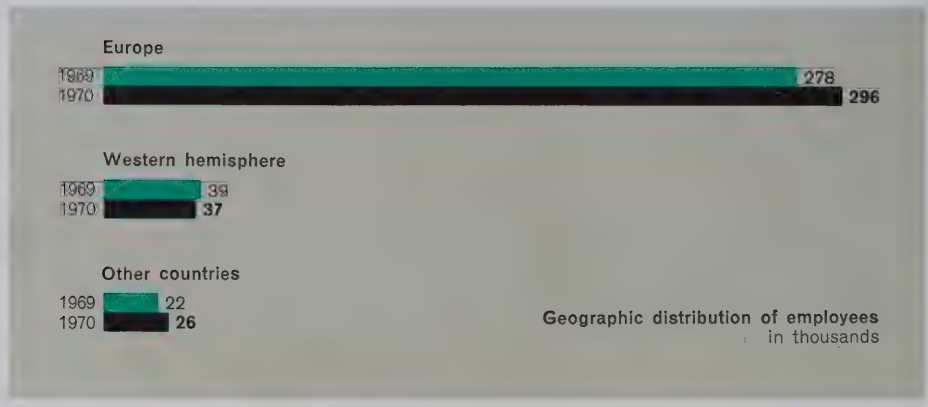
In the year under review the item "Investments in nonconsolidated subsidiaries and affiliates" increased by f 1,015 million to f 2,027 million. The most important transaction was the acquisition of the NKF GROEP N.V. at Rijswijk (Netherlands), one of the largest cable manufacturers in the world. This transaction was effected on the basis of payment in shares and convertible debentures. At the end of 1970 more than 99% of the shares and other equity interests of the NKF GROEP N.V. had been exchanged. The sales of the NKF GROEP N.V. in 1970 totaled about one billion guilders. This participation has not been consolidated, since the necessary harmonization of the reporting system has not yet been completed, and for the time being the interest is taken up at acquisition price, plus the income earned since June 1, 1970.

A number of agreements, to which reference was made in our previous Report, were finalized in 1970. They related to the acquisition of 35% of the share capital of Felten & Guilleaume Carlswerk AG, Cologne (Germany) by the exchange of shares, and to the acquisition of a 50% interest in Industrie Riunite Eurodomestici SpA, Comerio (Italy).

Towards the end of 1970 we acquired all the shares of Electronic Industries Ltd. (E.I.L.), Melbourne (Australia), in which we already held a substantial minority interest. This was effected by a public bid made by Philips Industries Holdings Ltd. in Sydney (Australia). As a result of the transaction, which involved an exchange of shares, 22% of the shares of Philips Industries Holdings Ltd. became distributed among third parties. These shares are now listed on the stock exchange in Australia. E.I.L., whose sales in 1970 totaled about f 460 million, has not yet been consolidated for the same reasons as mentioned in connection with the NKF GROEP N.V.

Following the acquisition by Westinghouse Electric Corporation of a majority interest in A.C.E.C. at Charleroi (Belgium), our cooperation with the latter enterprise in various fields was modified by mutual agreement. Majority interests were acquired in C.B.R.T. at Bruges (Belgium), television set manufacturers, and in C.B.R.E. at Queveaucamps (Belgium), fluorescent lamp manufacturers, by taking over the participations of A.C.E.C. On the other hand A.C.E.C. took over Philips' minority interests in Elphiac S.A. at Herstal (Belgium), a company producing electric heating equipment.

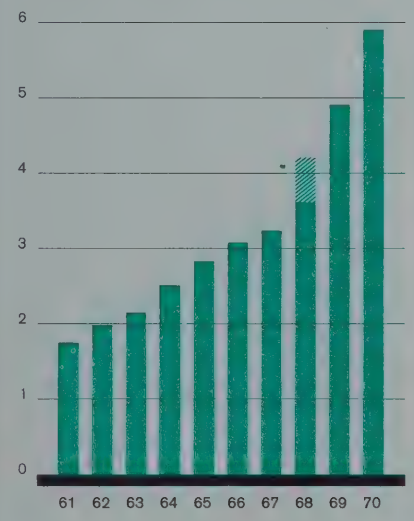
The development of the level of inventories in 1970 was not in accordance with our expectations, partly because of the marked expansion of production and the difficulties which this involved in the supply of components; in some cases this led to imbalance in the composition of inventories. As a percentage of sales inventories rose from 32% at the end of 1969 to 37% at the end of September 1970, after which they went down to 35% at the end of 1970.



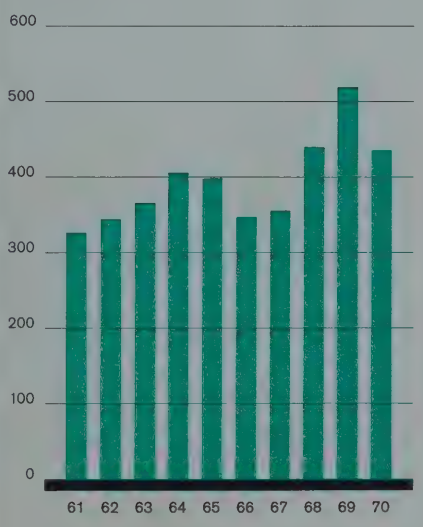
The average turnover period for trade receivables increased in the year under review from 2.7 to 2.8 months, mainly because the shortage of credit made it necessary to allow longer payment periods in various distribution channels. This figure is now calculated by eliminating the amount in added-value tax from the balance of accounts receivable, following the procedure already used for arriving at the sales figure. To make them comparable the relevant figures for the previous years have been recalculated accordingly.
In 1970 we reduced liquid assets by f 56 million to f 743 million by making wider use of the credit facilities available to us, which is appreciably more advantageous than maintaining a high level of liquid assets.
The territorial distribution of our assets at the end of 1970 was as follows: Europe 78% (76% in 1969), Western hemisphere 15% (18%) and Other countries 7% (6%).
The rate of capital turnover changed from 0.97 in 1969 to 0.96 in 1970.
In the financing of our operations we placed two loans in 8% guilder notes of f 100 million each at subscription prices of 100% and 99¾% for periods of three and four years respectively. In Switzerland we raised a total amount of 135 million Swiss francs in medium and long-term loans at interest rates varying from 7¾% to 8%.
In July 1970 we concluded with a syndicate of 47 banks a contract for a private loan of US $ 250 million. This five-year Eurodollar loan, which was raised in the second half of 1970, is of a variable-interest type. The rate of interest can be fixed for three or six months, at the option of Philips, and is ¾% above the London inter-bank rates paid on Eurodollar deposits for comparable periods. Since the conclusion of this contract the basic interest has decreased from 9½% to 7% at the end of the year under review. Furthermore 6½% convertible debentures in the amount of f 172 million were issued in connection with the NKF GROEP N.V. transaction.
The simplification of the capital structure, consisting in the replacement of the preferred shares by common shares, was completed in the year under review pursuant to an alteration of the Articles of Association, which was adopted at the Extraordinary General Meeting of Stockholders, held on October 30, 1970. The preferred capital stock has now been entirely replaced by common capital stock. In addition common shares were issued for the NKF GROEP N.V. transaction, for the acquisition of the interest in Felten & Guilleaume and as a consequence of the exchange of convertible debentures. In all, the common capital stock rose by more than f 45 million and Additional Paid-in Capital rose by f 224 million. Stockholders' equity increased by f 193 million in respect of retained earnings and by f 317 million in respect of revaluation.
Minority interests went up by f 67 million to f 748 million, mainly due to the above-mentioned transaction concerning E.I.L. in Australia.
Total liabilities in the past year rose from f 9 billion to f 12 billion, the relatively most marked increase being shown by long-term loans. At the end of 1970 44% of total liabilities were noncurrent compared with 38% at the end of 1969. Current assets as a ratio of the sum of current liabilities, short-term provisions and income available for distribution remained unchanged at 1.7. Total liabilities as a percentage of total capital employed were 63% at the end of 1970 (59% at the end of 1969).

PERSONNEL POLICY
In the year under review the total number of employees rose by 20,000 to 359,000. In Europe the number went up from 278,000 to 296,000, in the Netherlands from 93,000 to 98,000.

Wages, salaries and other related costs
in billions of guilders



Net income
in millions of guilders



The manufacture of incandescent lamp bulbs in India (Kalwa industrial region)

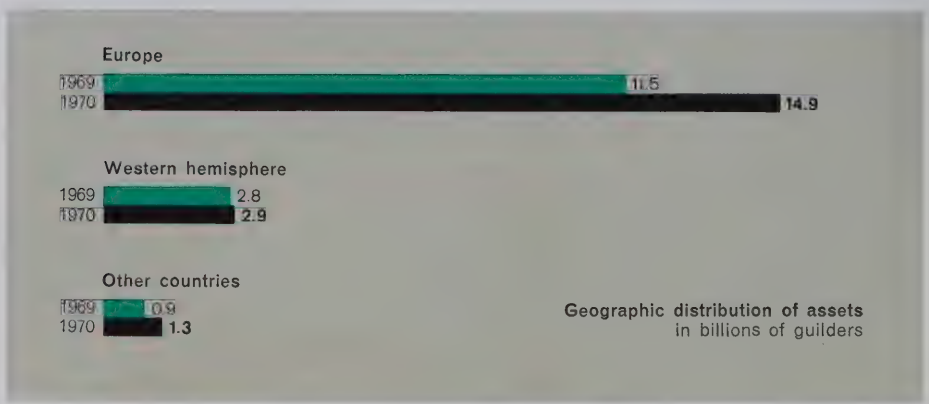
The increase, which was closely connected with the rising scale of activity continuing from 1969, related to employees at all levels. The relative growth of the higher-grade category, a process accounted for to a considerable extent by internal promotion, continued steadily. At the end of the year, for example, our organization in the Netherlands had over 12,000 higher-grade employees, an increase of more than 100% in ten years. The labor force decreased somewhat in the last few months of 1970 in response to the restraint on expansion. The effect of this restraint, which was accompanied in some production sectors by temporary short-time working, will be reflected more clearly in the development of the total number of employees in 1971.

In the category of higher-grade employees international transfers are being made on an increased scale. Apart from the fact that this policy enables the company to use available talent to the greatest advantage, it also gives the executives concerned opportunities for widening their outlook and developing their capabilities. This process can at the same time be viewed as part of our program of training and development activities which was further implemented in various countries during the year under review.

Internationalization in the staffing sector is also reflected in recruitment. In 1970 especially qualified staff for our computer organizations were engaged in various European countries and in particular in the United States of America. Recruitment campaigns on behalf of our research and development laboratories were also conducted in these countries.

Years ago we initiated measures in several parts of our industries with a view to enriching job content for individual workers and involving them more closely in their work situations. Today we see that the need among employees for a greater say in the organization and in the execution of their work is finding ever increasing expression. For us this is a stimulus to pursue our plans in this direction and to encourage new initiatives. We are pleased with the results already achieved. The trade unions also recognize these needs. We believe that much that is positive can be achieved in this respect by joint consultation, especially with the cooperation of the works councils.

In general we are convinced that the cooperation, mutual understanding and confidence between representatives of employees' organizations and leaders of industry leave room for improvement, not only in the Netherlands but especially in countries where labor unrest is more common. The outmoded idea that the interests of employee and employer are necessarily opposed stimulates efforts to achieve a position of power and involves the danger of a struggle to assert this power, to the detriment of healthy economic and social growth.



Geographic distribution of assets
in billions of guilders

The opportunities for capital ownership among employees were increased in 1970 by the introduction of convertible personnel debentures in West Germany. The total amount of convertible and of participating personnel debentures issued rose from f 232 million to f 275 million.

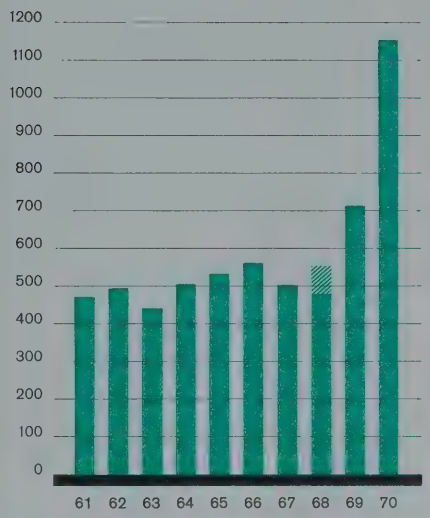
FUTURE

Our enterprise is engaged in markets which show significant structural growth; our policy continues to be directed towards full participation in that growth. Our investments in fields with good sales prospects have been substantial in the past years and partly form a basis for the future development of our activities.

For 1971 our aim is to call a halt to the unfavorable trend of earnings. To achieve this we believe we must aim at more moderate growth than in 1970. Not only will the sales increase in 1971 be lower than in 1970, but the growth rate of investments and the expansion of production will also be restrained. The latter entails reducing the number of employees and lowering the relative level of inventories. Financing in 1971 will not call for special measures.

Although results in the first half of 1971 will undoubtedly still be greatly affected by the circumstances outlined in this Report, we are confident that an improvement can subsequently be achieved in the course of the year. A prerequisite in this connection is that the inflationary process, which has acquired disquieting proportions in some countries, should be curbed without this leading to any serious disturbance of economic growth.

We conclude our Report by thanking our staff for their devoted efforts and achievements in the past year. Assured of their skill and enthusiasm, we look to the future with confidence.



Property, plant and equipment, net acquisitions for year
in millions of guilders

Eindhoven, March 18, 1971.

The Board of Management

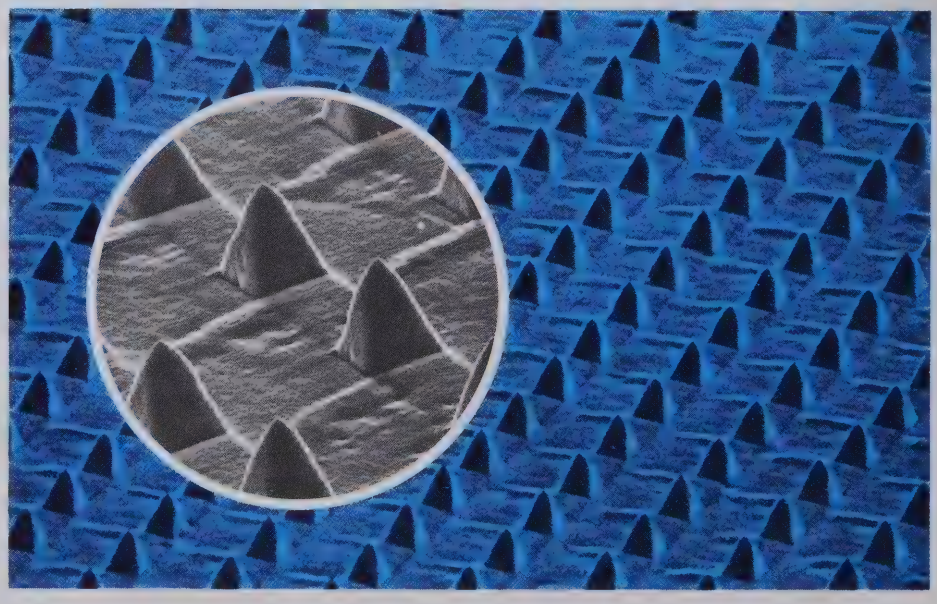
F. J. Philips
H. A. C. van Riemsdijk
P. H. le Clercq
D. van der Putten

H. B. G. Casimir
J. R. Schaafsma
P. C. Breek
D. Noordhof
A. E. Pannenborg
L. J. Wijns

Scientific research

It is an important task of our scientific research laboratories to turn to practical use the results of modern scientific knowledge — to which they make their own contributions. An example is the development and refinement of technologies which form the basis of manufacturing methods used in our factories. In semiconductor technology — which underlies the miniaturization and the production of integrated circuits — this is most clearly reflected in the ever improving control of the production of basic materials and in the increasing precision with which conducting or insulating patterns can be applied. The results that have been obtained with new techniques, such as electron-beam machining and ion implantation, justify the expectation of further improvements. Together with these investigations new methods needed for the measurement of ever finer details have been developed. Semiconductor technology is also used outside the field of transistors and integrated circuits. An example is a pressure sensing device for industrial and medical applications, the manufacture of which is based on a combination of an etching process from semiconductor technology and the high-precision spark-erosion machining technique which we perfected. The method of depositing very fine conducting patterns has also been used for making electrical filters of a new type, which can prove useful in television receivers. The small dimensions of these filters, in which use is made of acoustic surface waves in piezo-electric material, make them suitable for combination with integrated circuits.

The work in our laboratories is directed not only towards the use and refinement of specialized and sophisticated techniques, but also towards mastering the principles underlying old processes, such as metalworking and the shaping of glass and ceramic materials. One result of this work in the past year was the development of a new process for the pressing of glass components, while fundamental insight into the sintering process contributed towards an improvement in the quality of ceramic, magnetic and dielectric materials. The technique developed in our laboratories for the high-precision machining of metals enabled us to produce equipment for making the accurate photomasks required for the production of integrated circuits. A new heat-transport technique, using heat pipes in which metals evaporate at one end and condense at the other, promises to have widely diverse applications. The method can be used, for example, for the localized cooling of small electrical components, but it can also serve for the efficient transfer of heat from burner to heater in a Stirling engine. The technique of fabricating large arrays of channel electron multipliers has now reached the stage where these "channel plates" can be used in various applications where it is important to be able to amplify the



Pressure plate, milled from brass and subsequently nickel-plated, used during ultrasonic welding for supporting the contact wires of an integrated circuit by means of "pyramids" with a height of about a hundredth of a millimeter. There are 2,500 such pyramids on a surface four millimeters square. (Magnification 300 times, inset magnification 2,500 times)

1

radiation intensity of light or particles. Examples include television camera work at very low levels of lighting, broadband oscillography and ion microscopy. In these three fields we have achieved notable results in the year under review.

In the field of magnetic tape for recording, our measurements and improved understanding of magnetization processes contributed to a better specification of the requirements to be met by magnetic tape material. New chemical and physical methods for the manufacture of magnetic tapes meeting these specifications yielded a considerable improvement in the quality of the tapes.

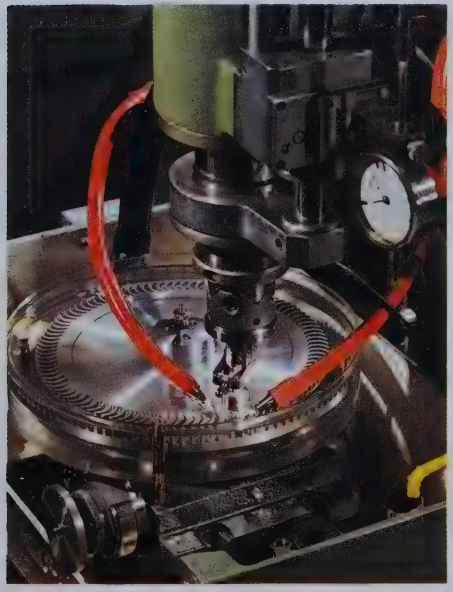
Further research into the ageing phenomenon found in samarium cobalt, a new material for permanent magnets, resulted not only in a method of preventing the ageing but also in the discovery of an entirely different property of these and similar materials, which is their ability to absorb large amounts of hydrogen. These substances may prove useful both for the temporary storage of hydrogen and for application in a new type of refrigerator.

New electrophotographic processes were developed that can be used for the reproduction of graphic information and in the manufacture of color television picture tubes.

The development of the technologies and processes mentioned here is of course only a part of the work done in our laboratories. Other activities include the design of new components, the search for new materials or the investigation of complex systems. The latter is directed on the one hand towards the working out of problems that may arise in the application of new components of a larger system, and on the other hand to the design of entirely new systems, for example for communication purposes. From these it is possible in turn to derive specifications for the development of new components. In the past year a great deal of effort was devoted in particular to the development of signal transmission methods for video telephones, to integrated systems for transmitting speech and numerical information, and to the search for new methods relating to the logical design and the internal structure of computers.

1 A fine example of the precision and surface quality which an operator can achieve with the spark-erosion machining technique.
2 The complicated form of this test model of a rotor, for use in a fan or driving mechanism, was made by spark-erosion machining. Variants of this model can quickly be made to any specification by further machining with this technique.
3 Experimental arrangement for measuring the energy distribution of electrons emerging after irradiation of a crystal cleavage plane freshly formed in a high vacuum.
4 Lathe designed in our own laboratories, which uses the principle of the hydrostatic bearing and hydraulic drive. With a diamond tool a precision better than one thousandth of a millimeter can be attained. In the background can be seen the numerical indicator of the measuring system designed to meet this high precision.

2



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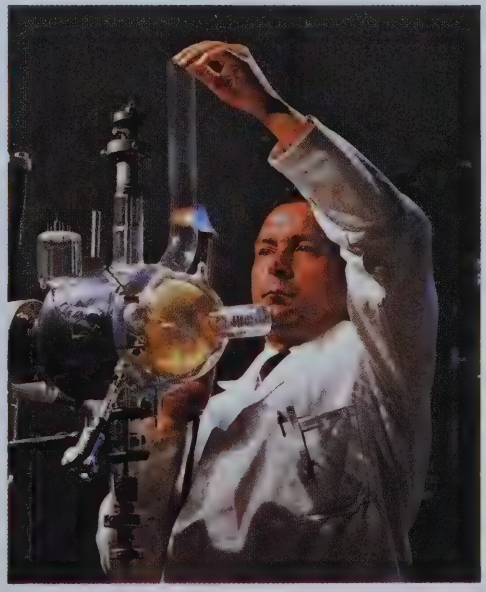


4

Lighting

The sales increase achieved by this product division in 1970 again exceeded that in the previous year. The growth was greatest in our sales of gas discharge lamps (which include tubular fluorescent lamps) and of fixtures. Sales of incandescent lamps (standard types, automobile lamps and photographic lamps) showed a satisfactory increase. We maintained our position in those countries where we still have our major markets and strengthened it in many other countries. The profitability of the division decreased somewhat.

Although the sale of lamps still holds the most prominent place in the overall activities of this division, the share of lighting systems is growing from year to year. In line with this shift of emphasis our business in the field of indoor and outdoor lighting (in which traffic projects occupy an important place) is growing faster than that in home lighting products.

In the projects sector a number of interesting orders were acquired in the year under review. They include the supply and installation of the indoor and outdoor lighting for a conference center in Kampala (Uganda), similar orders for a bank and an insurance building in Barcelona (Spain), a hospital lighting system in Teheran (Iran) and a lighting installation in the Pascaral Guerrero Stadium in Cali (Colombia). The design and engineering of such projects have to meet ever higher demands. We are therefore making increasing use of computers to optimize lighting quality and costs.

For use in large working spaces, such as offices and department stores, there is an ever increasing demand for ceiling systems in which lighting, air-conditioning and acoustics — the elements that determine the interior environment — are combined in an optimum way. We therefore started supplying lighting fixtures for such systems some years ago. In a later stage we brought out integrated ceiling systems in which these amenities can be incorporated. In the year under review we extended this activity in some countries, in Europe and overseas, to the installation of ceilings of this type which already incorporate these elements.

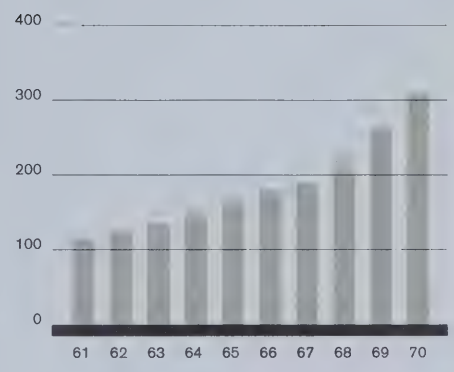
In the field of automobile lighting good prospects are opened up by the twin-filament halogen lamp, the "Duplo"PH4, which gives considerably more light than the twin-filament "Duplo"d lamp in current use.

1

2

Production of these lamps — for which the industry has developed appropriate headlight fixtures — was started in 1970. This new automobile-lighting system, which can make an important contribution towards greater safety on the roads, can be put on the market as soon as it has received official approval. We expect this to be the case in various countries in 1971.
The desire of large enterprises to present themselves to the public internationally in a uniform manner has led to an increase of our activity in the field of light-sign advertising. Organizations such as automobile manufacturers and oil companies use light-signs in order to give their many service and selling points a clearly recognizable identity. In 1970 a start was made on an identification program of this type for the Ford dealers in some West-European countries.
With a view to the strongly rising demand for tubular fluorescent lamps in Europe we are in the process of expanding our production capacity for these lamps and at the same time spreading it as efficiently as possible within that area. Outside Europe we enlarged our production capacity for incandescent lamps by opening a factory in London, Ontario (Canada).
In the near future we shall start building an incandescent lamp factory in Karachi (Pakistan).

Sales in index figures
(basis 1960 = 100)



Percentage increase in 1970: **18**

3

1 A ceiling system in which the functions of lighting, air-conditioning, acoustic damping and sound isolation are integrated, in the head office of the Basler Lebensversicherung at Bad Homburg (Germany).
2 Museum lighting: the ceiling of the "Studiolo di Francesco I" in the Palazzo Vecchio, Florence (Italy).
3 The lighting of 18 miles of road, traffic light systems and nine illuminated fountains were part of the "Turnkey Project" carried out in Sharjah, one of the Trucial States on the Gulf Coast.

Domestic appliances

1

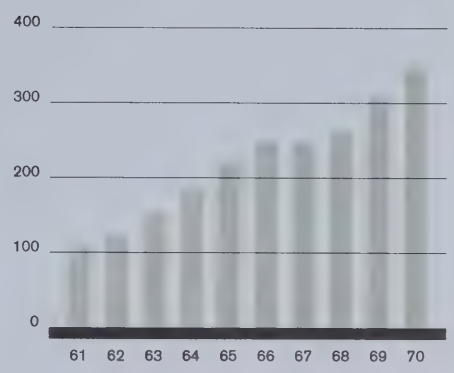
The sales of this division showed the most vigorous growth in major household appliances, which rose considerably in the second half of the year. The sales of personal care products also rose substantially in the year under review. The sales increase in the small domestic appliances group was below the average for the division. In terms of geographical distribution our sales outside Europe in particular show a gratifying upward trend. In 1970 they accounted for 36% of this division's total sales as against 27% in 1965. In Latin America especially, where strong growth is to be seen in the market for domestic appliances, our sales have risen steeply. A great stimulus to this sales increase came from close cooperation with various enterprises in that area.
In spite of greater business activity the profitability of the division has again decreased. The main reason for this is the large number of manufacturers in the major domestic appliances sector, which has caused strong pressure on selling prices, and resulted in too narrow profit margins. It was to be expected that this situation would set a process of adjustment in motion. In Western Europe this has been reflected in recent years in a succession of mergers. This inevitable trend is leading to highly mechanized and efficient mass production and will gradually enable this branch of business to show better profitability.
Our own position in the sector of major household appliances has been strengthened, particularly in Europe, by close cooperation with Ignis in Italy, and by the decision to build a factory for dishwashers in association with Bauknecht in West Germany. The rapidly growing replacement demand in this sector is largely for products that offer wider applications or more automatic facilities, such as two-door combined refrigerators and freezers and fully automatic washing machines. All this opens up interesting prospects for sales in the coming years. New products put on the market in 1970 were two types of ice-cube makers and a range of refrigerators.
For small domestic appliances and personal care products we have been able in general to maintain or improve our position. With a large number of products, such as vacuum cleaners, electric irons, coffee-making machines, fan heaters and dryshavers, we hold a prominent position in the West European market. In the sector of small household appliances we introduced a new range of electric fans and a new electric iron. Our range of mixers was widened. An electric can opener was added to the range in this sector.

1 Assembly of refrigerating systems for refrigerators and freezers in the I.R.E. factory at Cassinetta (Italy).
I.R.E. (Industrie Riunite Eurodomestici) is a joint venture of Philips and Ignis.
2 Our elegant "beauty set", newly styled, with the Ladyshave "Special" and accessories for make-up, massage, manicure and pedicure.

2

Among the products put on the market in 1970 in the category of personal care appliances was a newly styled "beauty set", a battery "Ladyshave", a hair-massage brush and new types of triple-headed shavers, including a rechargeable battery shaver incorporating a shave counter and a battery warning light.
In the sixties consumer expenditure on domestic appliances doubled. We expect a similar trend in the seventies. We hope to reap the full benefit of this development by devoting great attention to the continuous modernization and improvement of the products we are already marketing, to the addition of new products and to the further international spread of our activities.

Sales in index figures
(basis 1960 = 100)



Percentage increase in 1970: **13**

3 The new range of table fans, in sizes from 8 to 16 inches diameter, made in Barcelona (Spain).
4 Our electric shavers now have shaving heads with 90 instead of 60 cutting slots.

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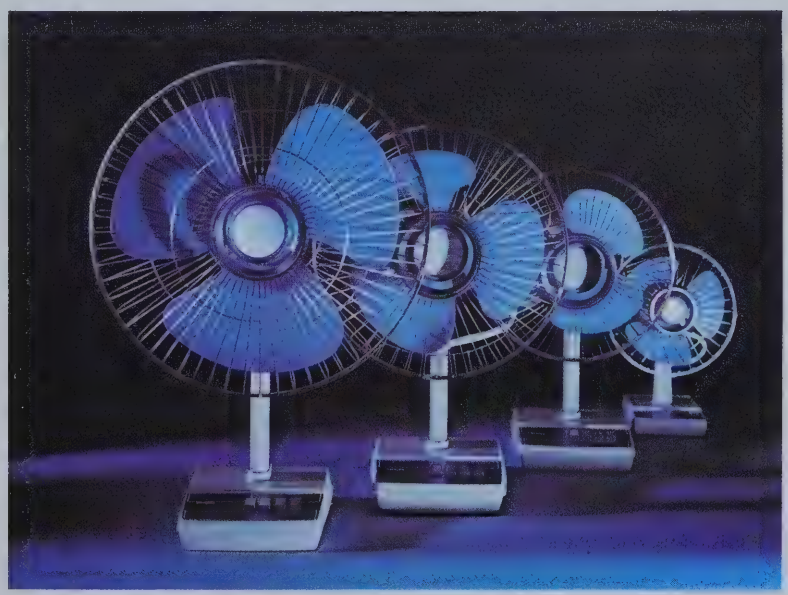

4

Radio, television and record-playing equipment

The sales of this product division showed a higher increase in terms of money than in quantity, owing to the relatively stronger growth of the market for high-grade equipment in the radio and gramophone sectors, and to the very substantial increase in the share of color receivers in the sales of television sets. The profitability of the division improved.

In the television sector the most outstanding development in 1970 was the significant increase in the market for color receivers in nearly all countries in Western Europe where color television has been introduced. Although the development in Sweden was disappointing, and the growth of the market slowed down in the last three months of the year, especially in West Germany, we nevertheless achieved a considerable increase in our color television sales compared with the previous year. In the second half of the past year, we were confronted in some countries with pressure on selling prices.

For 1971 we expect the strong growth in the sales of color television sets to continue, and are therefore proceeding with the expansion of production capacity.

Our sales of black-and-white receivers increased in the year under review. The market for these sets was slightly larger in Western Europe than in the previous year. This is closely connected, among other things, with the ever-increasing demand for sets with smaller screens. For the production of sets of this type we have opened a plant in Monza (Italy). The growing market for these smaller sets, the continuing importance of the replacement market for television receivers in various European countries, and the growing initial market outside Europe and North America, lead us to expect that our total sales of black-and-white sets will show no or scarcely any decrease in 1971.

In the radio sector the sales increase in 1970 was greater than in the preceding years. The main reasons for the vigorous upward trend were the demand for Hi-Fi equipment and radio recorders and the increasing interest shown in car radios with a cassette-player. In recent years we have devoted great attention in Europe to the international regrouping of production in order to form a number of specialized manufacturing centers. This offered us the possibility to produce larger series and hence to increase efficiency. Partly because of this we were able to keep the increase of cost prices within reasonable bounds and to adjust production more rapidly

1 One of our portable radio-recorders, combining a three-waveband radio with a cassette recorder.
2 The radio factory at Poona (India) turns out more than half-a-million sets a year.

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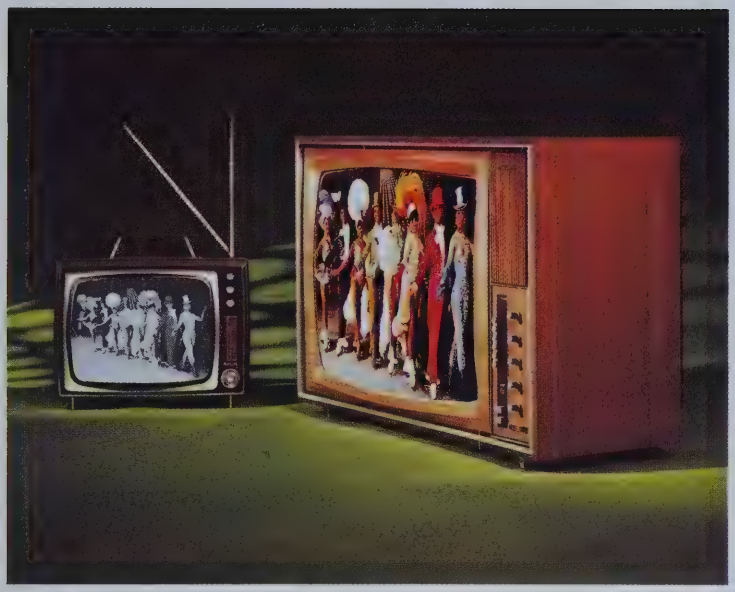


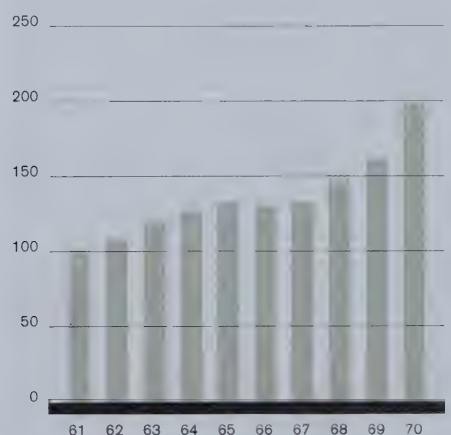
3

4

3 Two recently introduced television sets. One is a portable 12-inch black-and-white set, and the other a 26-inch color TV table model with the 110° picture tube, which makes this set slimmer than its predecessor.
4 Popular stereo combination: record player, radio receiver, 12 W amplifier and loudspeaker boxes.

to market fluctuations. The good prospects we see for the future of our radio business are based on the growing interest being shown in high-quality sets, in which field we occupy a strong position.
In the gramophone sector, too, there was clear evidence of the growing demand for equipment in the higher price class. In renewing our range we anticipated this development and were thus able to strengthen our position, particularly in Europe. The gramophone market is still greatly influenced by the increasing purchasing power of young people. Growing prosperity is leading to a greater interest in high-quality equipment on the replacement market. Partly for these reasons we are confident that we shall continue to achieve significant sales increases in the future. In 1970 we enlarged our production capacity by extending the factories in Flers (France) and Hasselt (Belgium). In Calcutta (India) and Arusha (Tanzania) assembly work has been started for the local market.

Sales in index figures
(basis 1960 = 100)



Percentage increase in 1970: **22**

Elcoma

(Electronic components and materials)

1

Up to the middle of 1970 our sales rose steeply, but in the second half of the year they slackened off severely as a consequence of hesitancy in the rapidly growing market for color television sets in some countries of Western Europe. Nevertheless the growth of this division's business over the whole year was greater than in the previous year. The sales of components for color television sets, which showed the greatest rise in West Germany and Great Britain, made a substantial contribution to the growth of total sales. As regards components for professional applications, business in integrated circuits and memory components showed a less favorable trend, because the reduced growth of the American computer industry adversely influenced the market for these products. This, together with other factors, including the leveling-off in the growth of demand for color television components, affected profitability.

Our 110° deflection system for color television (picture tube and related components) is gradually finding wider application. For this system we have introduced in addition to the existing "hybrid" circuit (a combination of receiving tubes and semiconductors) a circuit which uses only semiconductors and integrated circuits. This circuit enables set builders to take full advantage of the space saving which the 110° system allows. The new design incorporates specially developed high-tension semiconductors in the line output circuit.

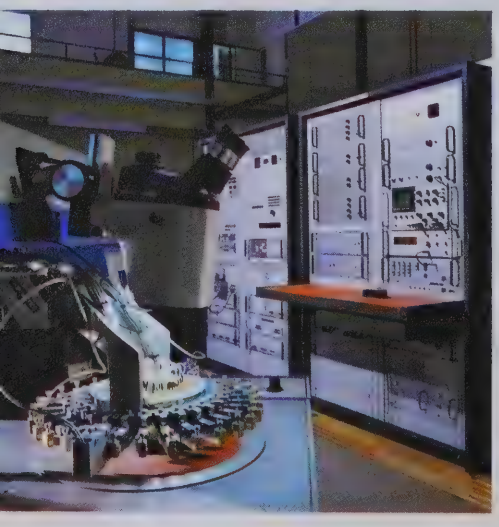
The sales of components for Hi-Fi radio, gramophone and recorder equipment showed a marked increase. We are gearing our production of components for black-and-white television to the increasing demand for smaller-screen picture tubes.

Our business in semiconductors (transistors and diodes), which are used on a large scale both for consumer products and for professional equipment, made good progress in 1970. The prospects for this group, partly on the grounds of the above-mentioned developments in the field of color television, also look good for the period ahead. Professional devices developed included high-power transistors for single-sideband transmitters, which meet the special demands for use in aircraft, on ships and in military systems.

In the field of integrated circuits the disappointing demand for some computer circuits caused a drastic fall in the prices of these products. The demand for integrated circuits for color television went up. For this application we introduced a new range of highly complex integrated circuits,

1 All solid-state circuitry and related components for the horizontal time-base part of a color television receiver with 110° picture tube.
2 Fully automatic testing of integrated circuit chips in the Nijmegen factory (Netherlands).

2

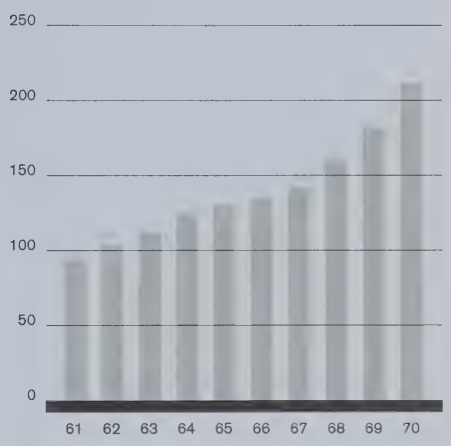


which carry out a large number of functions in a television receiver with outstanding technical efficiency. Some complex MOS (metal-oxide-semiconductor) circuits for office machines went into production.
In the field of professional tubes the following developments may be mentioned:

- a new type of "Plumbicon" color television camera tube with a 2½ cm window. With its "anti-comet-tail" principle this tube is able to handle strong light flashes;
- a flying-spot scanner for color film or slides, using a new phosphor with a stronger red emission;
- the extension of our range of "Pandicon" numerical indicator tubes with types for 8, 10 and 12 decades;
- the rapidly growing demand for magnetrons for microwave heating, used both in industrial processes and in professional cooking equipment.

The important "passive" components group showed a substantial sales increase in the year under review. We started the production of dry aluminium electrolytic capacitors, which are expected to find an important market in professional applications.

Sales in index figures
(basis 1960 = 100)



Percentage increase in 1970: **16**

The manufacture of solar cells at Caen (France):
3 Set-up in a vacuum enclosure for the vapor deposition of thin layers.
4 Final control.
5 Arrays of cells for generating power in space satellites.

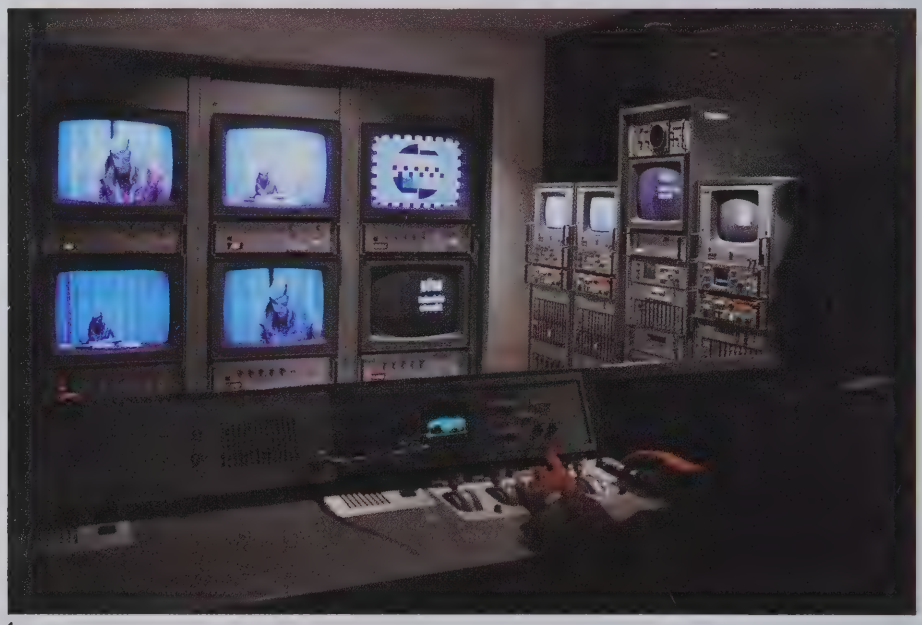
3

4

5

Electro-acoustics

The growth of the division's sales in 1970 was less pronounced than in 1969. Sales went down in the United States of America and in Canada, but elsewhere they showed in general a vigorous increase. Profitability decreased.
The sales of the entertainment recorders group showed a greater increase than those of the division as a whole. Sales were stimulated by a wider choice of stereo equipment and by the addition to the range of cassette recorders of types suitable for both mains and battery operation. The sales of cassette equipment for use in automobiles also increased. The

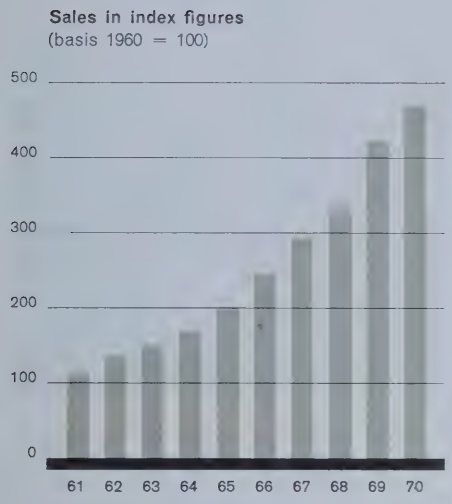


1

1 Camera and lighting control room in the television studio of the Stichting Film en Wetenschap, Utrecht (Netherlands).
2 Manufacture of microphones at Breda (Netherlands).

2

sound quality of our Compact Cassettes was improved by the introduction of the "low noise" tape.
The system we have developed for color video cassette recorders, expected to be introduced in 1971, has been adopted by a number of leading European manufacturers. This is a great step towards international cassette standardization for Western Europe, and means that audio-visual cassettes in this area will in general be interchangeable.
In the professional sector an important contribution to sales came from the dictating machines group, which again can look back on a good year. The same can be said of the intercommunication systems group; sales in particular of the large electronic systems introduced in the previous year, made a rapid advance. The quality of our systems and the growing number of international conferences gave a powerful stimulus to our sales of conference systems and simultaneous interpreting systems.
The expected decrease of the initial demand for color television studio cameras distinctly affected the growth of sales in the professional television group. The sales of products for closed-circuit television developed favorably, stimulated by the fact that, side by side with the black-and-white television equipment, we introduced the first elements of a program of color television equipment — a compact camera and a video recorder. For camera work requiring an image quality of very high standard a professional portable camera was brought out, fitted with "Plumbicon" pick-up tubes.

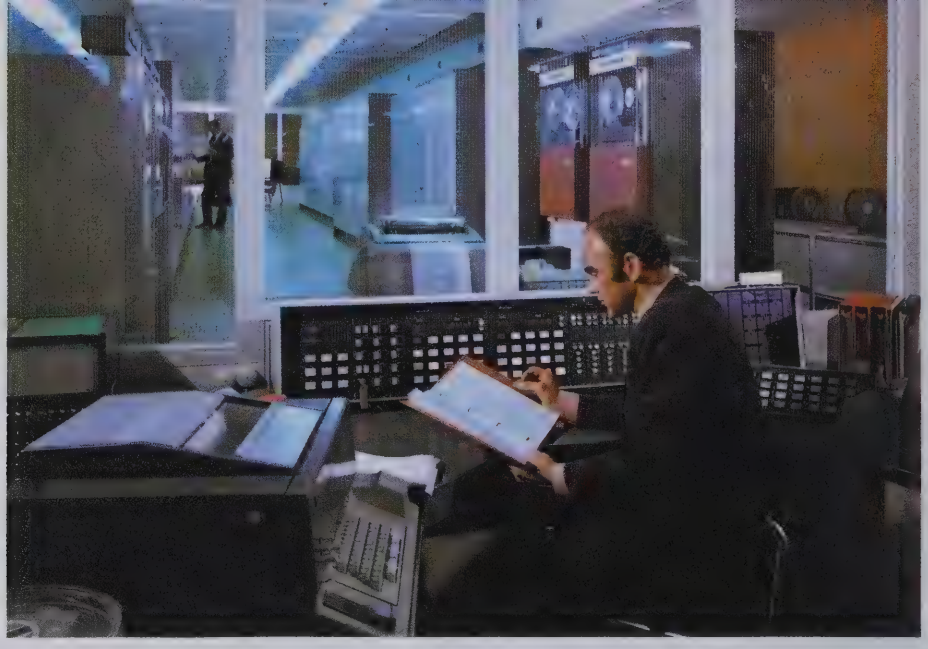


Percentage increase in 1970: **11**

With this camera, directly coupled to medical instruments, the first clear color pictures of internal organs have been made.
The demand for automatic film projectors for use both in cinemas and aircraft exceeded the supply. Among the many film-projection systems which we supplied, a number of large installations contributed to the success of various exhibitions, including EXPO 70 at Osaka.
In the professional recording group the sales increase was unable to keep pace with the growth of demand. The prospects for this activity are good, especially since we are beginning to acquire a leading position in this sector with the cassette equipment we have developed for small professional cassettes. The cassette used is a two-hole type based on the same principle and with the same dimensions as the Compact Cassette used in entertainment cassette recorders. This equipment greatly simplifies the operation of professional recorders. Well advanced — in development and standardization — is our digital cassette system for use in electronic data processing. The new cassette technique has almost reached the stage where it can find practical application in broadcasting studios and for recording measuring data.

31-channel communication recorders in the flight-control center of the Rhein-Main Airport near Frankfurt (Germany).

Telecommunications and defense systems



1

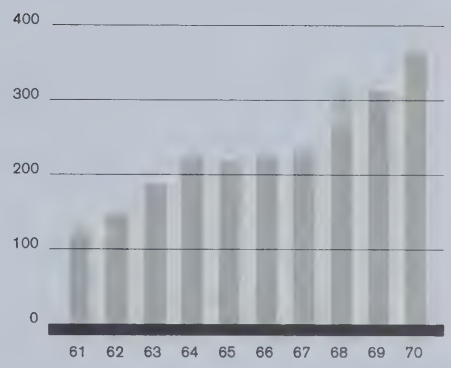
The sales figure and order backlog of this division showed a substantial increase in 1970. Profitability was below the concern average; we are pursuing our efforts to improve it.
The markets as well as the factories and laboratories of this product division are becoming more and more internationally spread. Only 40% of our total production now takes place in the Netherlands; the other production countries include Great Britain, France, West Germany, Sweden, Belgium and Australia.
Sales of public telephone equipment rose partly as a result of large deliveries to the Netherlands postal authorities (P.T.T.), which again placed orders for such equipment as modern exchanges to handle long-distance and international traffic. In the first half of 1972 the first of a series of processor-controlled telephone exchanges will be installed for the Netherlands postal authorities in accordance with their specific requirements.
In close cooperation with the Ministry of Public Works in the Netherlands, the P.T.T. and the A.N.W.B. (Dutch automobile and touring association), a telephone alarm system has been developed which is to be installed along the network of highways in the Netherlands. The first part of this project was inaugurated at the end of 1970 by the Dutch Minister of Public Works, Mr. J. A. Bakker.
Multinational enterprises are showing keen interest in our computer systems for message traffic. The Royal Dutch/Shell Group, whose head office in The Hague we had already equipped with such a system, placed an order for two similar systems to be supplied to the head office in London and their establishment in Caracas (Venezuela). Postal authorities and international companies operating telecommunications networks are also greatly interested in these systems. Italcable ordered a system for international telegraph communications and national data traffic.
In the transmission sector there is a growing demand for our coaxial line equipment. In India 12 MHz equipment will be supplied for a total length of about 1,600 miles, and Pye T.M.C. received an order from the British Post Office Corporation to develop 60 MHz equipment. In Mexico and Sweden important orders were obtained for our PCM (pulse-code modulation) systems. Building on inventions made in the research laboratories in Waalre near Eindhoven, our French partners developed a delta-modulation system which, like the PCM system, is based on the time division principle; the first orders for this equipment were placed by the French postal authorities.

1 Our DS 714 computer system is used in the head office of the Royal Dutch/Shell Group in The Hague for international message traffic between the companies of the group.
2 One of the many "talking posts" installed as part of the telephone alarm system along the highways in the Netherlands.

2

The Shah of Iran officially opened our microwave link network for the National Iranian Oil Company. The microwave link network installed for the Brazilian Post Office (EMBRATEL) was officially put into operation by President Médici.
Now that we have also been commissioned by the Chilean civil aviation authorities to supply the radio communication equipment for ground-to-air communications and for communications between the airports, the radio communication network for aviation along the entire west coast of South America will be using Philips equipment in the near future.
For the Netherlands civil aviation authorities we are to carry out the first phase of the expansion and refinement of the SATCO-2 system at Schiphol airport. This will result in a new system for the automatic processing of radar data. The system is called SARP (Signaal Automatic Radar Processing) and is due to be completed in 1973. The complete separation provided in this system between incoming and outgoing air traffic will make it possible to guide in eighty aircraft every two hours; in peak periods as many as forty of these may be guided in within half an hour.
More than twenty civil aviation companies are now using in their aircraft — including the Boeing 747 — the highly accurate radio-altimeter developed by our French partners. It is also being used in the Concorde and in military aircraft. An American company is to make this altimeter under license in the United States for the American market.
In the launching of an ELDO rocket in June 1970 our telemetry equipment again gave excellent service. Further activity for us in the field of space communications will be the development of the telemetry and command equipment for the Netherlands astronomic satellite to be launched in 1974.
In several countries orders were received for the supply of radar and fire-control systems.

Sales in index figures
(basis 1960 = 100)



Percentage increase in 1970: **17**

3

3 This receiving/transmitting mast belongs to one of the 73 stations in the microwave system, more than 1,800 miles long, which we have supplied in Iran.

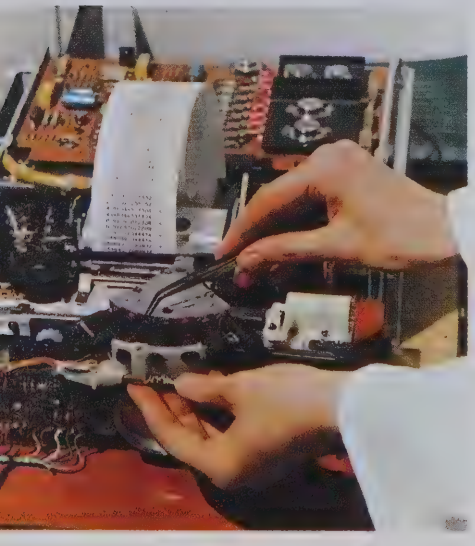
Data systems

This product division, whose sales doubled in 1970, can look back on a year in which not only operations in software and hardware were considerably expanded, but also in which the organization was substantially strengthened in all sectors.
Various aspects of the expansion of our organization received special attention. They include the enlargement of production capacity at Apeldoorn (Netherlands), Bremen and Eiserfeld (Germany), the strengthening of the international commercial and service organization, the intensification of the technical development of hardware and software, an appreciable widening of training facilities in Western Europe and the accelerated build-up of a team of qualified specialists. Apart from the widening of our field of activities by the operation of data service centers, we continued opening up new applications for our existing systems.
After having delivered the first general purpose computer at the beginning of 1969 to an external user in the Netherlands, we installed many other such systems in 1970 in various West European countries. Meanwhile the first larger P 1000 models — the P 1200 and P 1400 computers — have been delivered. Comparison with new systems put on the market in 1970 by other computer manufacturers has confirmed our conviction that our large computers are equipped with the most advanced features.
In the rapidly growing market for electronic office machine systems we have built up an interesting position in a short time. Whereas growth in this sector, which began to show profits in 1970, was held back in 1969 by the lack of production potential, we were able in 1970 to meet market requirements in full by expanding our factories in West Germany. Thousands of P 350 office computers have been supplied to users.
In France a start was made in the year under review with the production of small computer systems of the P 800 family, developed in that country. These systems are designed for industrial and scientific applications. Two types from this family, the P 850 and the P 880, were introduced at the international exhibition "SICOB" at Paris, where they aroused great interest. We began to supply systems belonging to this series at the beginning of 1971.
The emphasis in development has been placed on software and peripherals. Here we have benefited greatly from the wide experience gained with computer systems within the Philips organization, not only as users but as producers of computers for special applications. Important milestones reached in 1970 in the development of software were:

- the delivery of a basic system that makes it possible to process programs in all known programming languages;
- the delivery of the PRINSYS (Product Information System) application software package, specially designed for solving production control problems.

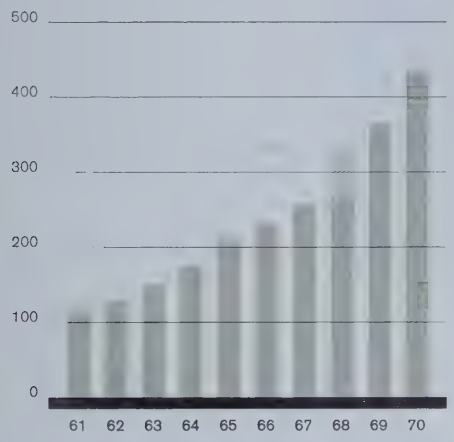
Good progress was also made with the development of a data-base management system, an integrated general system, multi-programming and time sharing. Scientific packages, for example one for statistical programs, and a matrix language were developed.
As mentioned above, we strengthened the activities of this product division in 1970 by the operation of data service centers. In Western Europe some time-sharing data service centers were put into operation, which have yielded outstanding results. In the coming years we intend to expand this activity, in which keen international interest is being shown.

Adjusting the fast printer of our electronic desk calculator in the P 250 range, developed and produced by the plant in Bremen (Germany).



Industrial equipment

Sales in index figures
(basis 1960 = 100)



Percentage increase in 1970: **19**

The sales of this division rose steeply in the past year, especially in West Germany. Sales in the United States of America and in Canada showed decreases. Profitability declined.

An important contribution to the growth of sales came from the electronic measuring instruments group, which, in a few years, has regained a strong position on the European market for high-grade instrumentation. In this sector the article group for oscilloscopes is one of the fastest growing in the division. Two new oscilloscopes of very large bandwidth, which raise the state of the art of these products to a higher level, were introduced in the year under review. We consider the growth prospects for the electronic measuring instruments group as a whole to be promising.

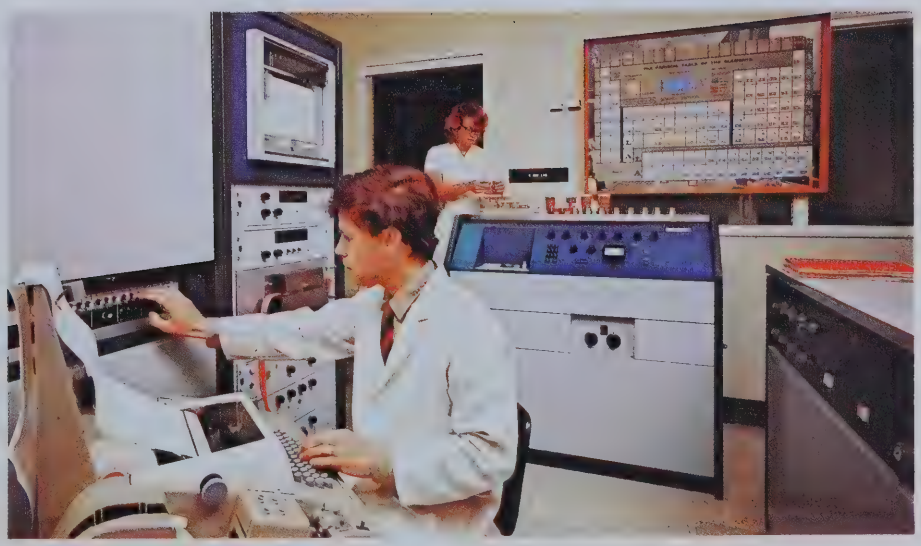
In the analytical instrumentation sector the keen demand for the new range of X-ray equipment for materials analysis could not entirely be met. In the electron microscope market, in which we continue to hold a leading position, we introduced among other equipment at the world congress in Grenoble (France) a high-resolution microscope for routine work.

In 1970 the transfer took place of the isochronous cyclotron, one of the largest in the world, built for the university of Groningen (Netherlands). This particle accelerator, the central part of which is an electromagnet weighing 650 metric tons, will be used for nuclear physics research.

The considerable sales increase in the industrial instrumentation sector was largely due to the sales of equipment for the numerical control of machine tools and for process control. An advanced contour-cutting control system using a small computer was introduced. To strengthen our position in the fast-growing market for numerical control we are putting a great deal of effort into development.

Substantial investments will continue to be needed in the coming years for the development of data-handling techniques for systems in which analytical and measuring equipments are integrated with a computer.

The sales of the welding group went up appreciably.



A computer-controlled X-ray spectrometer used in the laboratory of an Australian mining company for the fast analysis of large numbers of ore samples.

Medical systems

The 10 MeV linear accelerator for irradiation therapy in the University Clinic at Lund in Sweden.

This division's sales, which are mainly in the radiographic-diagnostic equipment sector, rose considerably in 1970. Profitability came under pressure. Efforts towards future growth were energetically continued, particularly in medical electronics, radiation therapy and nuclear medicine. At the same time great attention was devoted to the subject of automation in health care. High development costs were also incurred by the rapid pace at which equipment is being modernized to meet the higher requirements imposed by the evolution in medical techniques.

In the development of radiographic-diagnostic equipment efforts are prominently directed towards simplifying operation with the object of speeding up the examination. This applies particularly to systems for routine examinations. Developments in imaging techniques (image intensifier television and video recording) have led to a number of innovations which have enhanced the quality of the information on which the diagnosis is based.

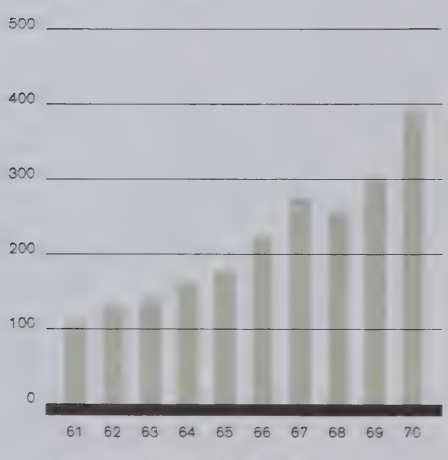
In the medical electronics group, which is operating in a rapidly growing market, the greatest increase in sales has been achieved with electrocardiographs, physiological measuring systems and also equipment for patient monitoring. The program is being extended with lung function and respiration equipment.

During the year the radiation therapy group made great progress with the development of its new program. A new version of the 10 MeV linear accelerator, featuring print-out of irradiation parameters, was installed at Lund in Sweden.

Deliveries of the new series of compact isotope measuring equipment for application in nuclear medicine will be started in 1971. The first gamma cameras, instruments for visualizing the distribution of radioactive isotopes introduced into the human body, have meanwhile been delivered.

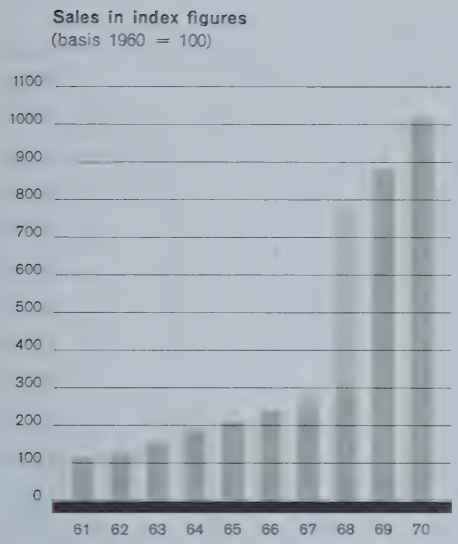
This product division, which occupies a prominent position in the market for medical equipment and systems, is expected to show considerable further growth in the years ahead as a consequence of the ever-increasing attention being devoted in the world to medical care.

Sales in index figures
(basis 1960 = 100)



Percentage increase in 1970: 31

Pharmaceutical-chemical products



Percentage increase in 1970: **16**

To the growth of sales achieved by this product division the activities in the United States of America, where more than half of the combined sales take place, also made a substantial contribution, in spite of the adverse development of the economic situation in that country. Profitability declined, mainly due to the production difficulties encountered in 1970 in the phyto-pharmaceutical sector.

The growth was relatively most vigorous in the human pharmacy sector, where the substantial rise of sales was particularly marked in a number of European countries, notably Belgium, the United Kingdom, France and Italy. We expect that the share of this sector in the division's sales will continue in the coming years to show the greatest growth, partly as a result of further widening of the range of products. This relates not only to expansion of the category of pharmaceutical specialties originating from our own research and development, but also to medical aids for diagnosis, treatment and care of patients. There has been a very fast increase in the demand for disposable syringes marketed by this product division. The growing demand for these syringes necessitated a considerable extension of our production capacity in Olst (Netherlands).

To speed up the development of our business in the field of radioactive isotopes it was decided to form a joint enterprise with Nagase & Company Ltd. (Japan). The name of this company will be Duphar-Nagase Laboratories Ltd.

Less marked growth was shown in the crop protection sector, which occupies an important place in our overall sales pattern. This was largely due to the difficulties we experienced in the large-scale manufacture of the herbicide "Casoron". We expect, however, that as soon as these difficulties have been overcome, this product, with its wide potential applications, will form a good basis for the further expansion of our phyto-pharmaceutical business.

The most outstanding development in the biochemical group was our success in developing a group of pigments which are not toxic and are to a high degree color-fast. Research on these substances, whose special properties will be useful in foodstuffs, medicines and cosmetics, is being pursued.

In the veterinary sector we added to our range of virus vaccines a new vaccine against Marek's disease, which has caused a high mortality rate among poultry in recent years. Production facilities for our veterinary vaccines were expanded in Argentina, Australia and the Netherlands.

Vaccine production in the new vaccine laboratory at Weesp (Netherlands) takes place in cabinets through which there is a laminar flow of sterile air.

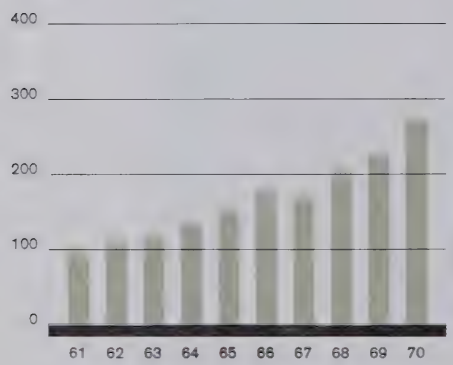
Allied industries and Glass

A shadow was cast over the favorable trend of the business of these divisions in 1970 by the death of seven employees, who lost their lives in the fire that totally burnt down the factory for corrugated cardboard belonging to our associate Bowater-Philips N.V. at Gent (Belgium) on April 16, 1970. The building of a new and up-to-date factory was energetically put in hand, and had advanced sufficiently by the end of November for production of corrugated cardboard to be resumed. Upon the appearance of this report the factory will have been rebuilt and be in full operation again. The production capacity in the Netherlands for corrugated cardboard packaging was increased by the opening of a new factory at Etten-Leur by N.V. Movi, a company in which we hold a 50% interest.
Our business in diamond dies was stimulated in the year under review by the marked increase of demand for thin steel wire. This wire, which is drawn by means of diamond dies, is an important component of radial-ply automobile tires, which are becoming increasingly popular.

Machine for the automatic chrome-plating of plastic components in the Philite and metalware factory at Eindhoven.

In the year under review, as in 1969, there was a very great demand for glass for the manufacture of television picture tubes, both from the Elcoma division and from enterprises outside Philips. This led us to decide to increase production capacity, in particular with a new factory which is being built at Winschoten (Netherlands).
We are now using new techniques for the finishing of pressed glass parts for color television picture tubes.
In anticipation of the completion of our television glass factory in Taiwan, employees from that country are being trained in our factories in Eindhoven, Aachen (Germany) and Simonstone (England).
The production capacity for incandescent lamp bulbs at N.V. Emgo, an enterprise in Belgium in which we have an important participation, was increased to keep pace with the steadily growing demand.

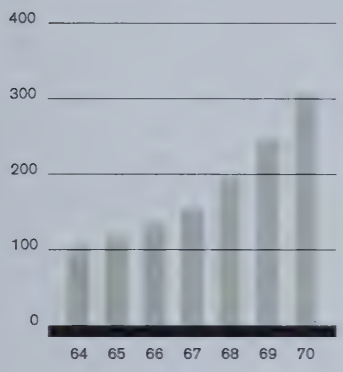
Sales in index figures
(basis 1960 = 100)



Percentage increase in 1970: 20

Music

Sales P.P.I./D.G. in index figures
(basis 1963 = 100)



Since the group N.V. Philips' Phonographische Industrie/Deutsche Grammophon Gesellschaft mbH — P.P.I./D.G. — was formed in 1962, sales have trebled. In 1970 the consolidated annual sales showed an increase of 19%, after eliminating the influence of the revaluation of the German mark in 1969. Profitability was lower than in the previous year.
In the year under review the position of the group in Japan, the most important market for sound carriers after the United States of America, was considerably strengthened by the formation of Nippon Phonogram, in which P.P.I. participates with Matsushita and Nippon Victor. In the same way D.G. has for some years now had a participation, together with other Japanese partners, in Nippon Grammophon.
The share of musicassettes in the total sales of sound carriers showed a further rise. We expect this trend to continue in the coming years to an increasing extent. It will receive a strong impulse from the 2 LP musicassette introduced in the course of 1970. Plans are in preparation in the field of prerecorded video cassettes.
P.P.I. In 1970 recordings for the Berlioz cycle were continued. The opera "Les Troyens", the highlight of this cycle, has held second place on the American classical bestseller list for several months. This recording has received numerous international awards. Among those with whom new contracts were concluded were Neville Marriner and "The Academy of St. Martin in the Fields", the pianist Alfred Brendel and the organist Daniel Chorzempa. In the popular sector we had good results with artists such as Black Sabbath (Vertigo label), Jethro Tull (Island label) and Neil Diamond (UNI label); international successes were achieved with such artists as Nana Mouskouri, Aphrodite's Child and Ekseption. A long-term contract was concluded with Anita Kerr and her new vocal group.
D.G. The jubilee release of Beethoven's complete works on 75 LPs was a great success. Also worth mentioning are the new contracts with the Boston Symphony Orchestra and the Wiener Philharmoniker, as well as the extension of the contracts with the Berliner Philharmoniker and Herbert von Karajan.
In the popular sector agreements were concluded with important labels such as Stax, Blue Horizon and Event, and the agreement with M.G.M. was extended. Great successes were obtained with records of John Mayall, Jake Holmes, James Last, Golden Earring, Bee Gees, George Moustaki and the late Jimi Hendrix.

The conductor Colin Davis, under whom the Berlioz cycle is being produced, the highlight of which was the opera "Les Troyens".

Report on the Combined Statements

To the beneficiaries of the United States Philips Trust.

As we stated last year, North American Philips Corporation is the main operating company controlled by the Trust. Consequently, its performance influences the Trust's results to a great extent.
The United States experienced a recession during 1970, and the electrical and electronic industry was not immune to it. Many companies in this industry, as well as in allied product fields, reported disappointing results, as did N.A.P., in which we have our major investment.
In addition, earnings of N.A.P. were substantially affected by adjustments of inventories to reflect current market conditions, as well as by expenses resulting from decisions to discontinue certain unprofitable product lines.
Thus our Trust's share (65%) in the results of N.A.P., together with its other consolidated net income, amounted to $ 5,732,825, as compared with $ 13,182,383 in 1969 (not including extraordinary profit that year).
Net assets of the Trust as of December 31, 1970, amounted to $ 175,220,807 based on underlying book values, as against $ 169,546,691 as of December 31, 1969.

Respectfully submitted,

The Governing Committee of the United States Philips Trust.
By Francis T. Christy, Chairman.

* * *

In assessing the value of their holding, stockholders of N.V. Philips' Gloeilampenfabrieken and of N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken should take into consideration not only their interest as such but also their interest as beneficiaries under the United States Philips Trust (the Trust). For this purpose they may consult the following Combined Statements which show the total interest of stockholders as such and as beneficiaries under the Trust.
When reading these Statements the following should be noted with regard to the above letter to stockholders as beneficiaries of the Trust.
The Trust does not apply the replacement value principle in calculating net assets and results.
The net asset value of the Trust at December 31, 1970 includes an amount of US $ 13,557,481 in respect of intangibles; the figure at December 31, 1969 was US $ 12,174,584.
In accordance with the principles of valuation (page 38) these amounts have been deducted in the Combined Statement of Financial Position from the net worth of the Trust.

Combined Statement of Results

	1970		1969	
Sales		15,070,068,000		13,023,135,000
Costs and expenses:				
Cost of sales	10,425,269,000		8,749,716,000	
Selling and general expenses	3,364,378,000	13,789,647,000	2,919,787,000	11,669,503,000
Income from operations		1,280,421,000		1,353,632,000
Other income and charges:				
Interest paid	507,010,000		338,098,000	
Interest received	99,909,000		76,958,000	
	407,101,000		261,140,000	
Miscellaneous	— 17,326,000	389,775,000	38,555,000	299,695,000
Income before taxes		890,646,000		1,053,937,000
Income taxes		444,773,000		526,059,000
Income after taxes		445,873,000		527,878,000
Equity in net income of nonconsolidated companies		28,348,000		49,764,000
		474,221,000		577,642,000
Minority interests		39,160,000		59,184,000
Net income		435,061,000		518,458,000

Amounts in guilders

Combined Statement of Financial Position

	1970		1969	
Property, plant and equipment				
Replacement value	10,203,991,000		8,670,575,000	
Accumulated depreciation	–4,689,821,000	5,514,170,000	–4,074,463,000	4,596,112,000
Intangible assets		—		—
Investments in nonconsolidated subsidiaries and affiliates		2,026,551,000		1,012,148,000
Sundry noncurrent assets		380,262,000		367,314,000
Inventories				
Factory inventories	2,823,582,000		2,373,062,000	
Advance payments by customers	– 308,987,000		– 214,694,000	
	2,514,595,000		2,158,368,000	
Commercial inventories	2,792,460,000	5,307,055,000	2,048,897,000	4,207,265,000
Accounts receivable				
Trade receivables	4,706,527,000		3,859,670,000	
Discounted bills	– 396,292,000		– 356,290,000	
	4,310,235,000		3,503,380,000	
Other receivables	499,941,000		523,763,000	
Prepaid expenses	307,270,000	5,117,446,000	237,325,000	4,264,468,000
Liquid assets				
Marketable securities	82,320,000		119,186,000	
Cash	660,400,000	742,720,000	679,347,000	798,533,000
		19,088,204,000		15,245,840,000

Amounts in guilders

	1970		1969	
Stockholders' equity				
Common capital stock	1,213,608,000		1,168,523,000	
6% Cum. part. pref. capital stock			3,086,000	
Additional paid-in capital	669,075,000		445,457,000	
Retained earnings	3,032,720,000		2,839,802,000	
Revaluation surplus	1,408,172,000	6,323,575,000	1,091,225,000	5,548,093,000
Minority interests		748,649,000		680,645,000
Sundry provisions				
Long-term	1,446,328,000		1,183,796,000	
Short-term	353,767,000	1,800,095,000	329,600,000	1,513,396,000
Noncurrent liabilities				
Convertible debentures	780,064,000		587,058,000	
Other debentures	497,436,000		514,043,000	
Other noncurrent liabilities	2,600,226,000	3,877,726,000	1,125,839,000	2,226,940,000
Current liabilities				
Bank credits	2,309,665,000		1,782,601,000	
Accounts payable	2,595,813,000		2,080,118,000	
Income taxes	350,215,000		480,717,000	
Accrued expenses	840,323,000	6,096,016,000	670,271,000	5,013,707,000
Income available for distribution (see page 43)		242,143,000		263,059,000
		19,088,204,000		15,245,840,000

Explanatory Notes to the Combined Statements*

Principles of valuation

Property, plant and equipment
These assets and their depreciation are valued on the basis of replacement value. Changes in the replacement value are either credited or charged to the Revaluation Surplus.

Intangible assets
Expenditures on research, development and patents are shown at no value.
Net amounts paid in excess of the tangible net asset value for the acquisition of participations in any year are charged to Income Account.

Investments in nonconsolidated subsidiaries and affiliates
Nonconsolidated investments are valued at an amount not exceeding their tangible net asset value.

Sundry noncurrent assets
The value of these assets is stated at amounts not exceeding expected realization.

Inventories
Inventories are valued at replacement value or at estimated realizable value, whichever is the lower. Changes in this value are either credited or charged to the Revaluation Surplus; reductions in value resulting from special technological improvements in our production processes are charged to Income Account.
The provision for the risk of obsolescence is deducted from the total figure for inventories. Profits arising from transactions within the Philips organization are eliminated.

Accounts receivable
Receivables are taken up at nominal value. The provision for the risk of doubtful accounts is deducted from the figure for receivables.

Liquid assets
Securities are valued at purchase price or at their listed stock exchange price at the end of the fiscal year, whichever is the lower. Shares in N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken and debentures of N.V. Philips' Gloeilampenfabrieken and of their affiliates are included at par.

Minority interests
Minority interests in consolidated subsidiaries are valued on the basis of tangible net asset value.

Foreign currencies
Amounts in foreign currency are converted into guilders at the official rates of exchange, unless circumstances, as, for instance, the purchasing power of the currency concerned, call for the adoption of a lower rate.
The difference resulting from the recalculation of net asset values in countries where the exchange rate has been changed is credited or charged to the Revaluation Surplus.
In so far as stockholders' equity is invested in other than physical assets, additional amounts are credited where necessary to the Revaluation Surplus and charged to Income Account.

Replacement value
The replacement value is determined on the basis of the price trends of the various assets, making use of indices.

Principles of calculating income

- The sales figure represents the net proceeds from goods and services supplied to third parties.
- Depreciation of property, plant and equipment, consumption of raw materials and the other elements in the cost of sales are calculated on the basis of replacement value.
- Provisions for risks inherent in operations are built up in proportion to the volume of business.
- Intangibles are charged to Income Account.
- Provisions for taxes on income are made on the basis of the income figure determined in accordance with our principles of valuation, which implies that latent tax liabilities and claims are taken into account.

Criteria for consolidation of subsidiaries

With a few exceptions, all those companies in which N.V. Philips' Gloeilampenfabrieken or the United States Philips Trust hold, directly or indirectly, 50% or more of the voting capital stock are included in the Combined Statement of Financial Position; the assets and liabilities are then included in full, and minority interests are shown separately in the Statement. In a few cases where the holding is 50% the assets and liabilities are included in that proportion. Companies in which the holding is less than 50% are not included in the consolidation, nor are investments

* *These statements combine the consolidated data of N.V. Philips' Gloeilampenfabrieken and those of the United States Philips Trust.*

in certain companies whose activities are entirely different from those normally undertaken by Philips, even though the holding may be 50% or more of the capital stock. Similar considerations apply to the Combined Statement of Results.

Explanatory notes to assets, liabilities and stockholders' equity

Property, plant and equipment

Book value at January 1, 1970		4,596,112,000
Changes:		
Investments in land, buildings and houses	354,631,000	
Investments in machinery and equipment	879,257,000	
Decrease due to assets sold and withdrawn from use	– 76,179,000	
Net acquisitions		1,157,709,000
Depreciation on buildings and houses	– 122,188,000	
Depreciation on machinery and equipment	– 485,372,000	– 607,560,000
Revaluation		336,833,000
Net change due to new and discontinued consolidations		31,076,000
Book value at December 31, 1970		5,514,170,000

	replacement value	depreciation	book value
Vacant sites	125,935,000	—	125,935,000
Land and buildings	4,691,438,000	1,433,402,000	3,258,036,000
Houses and land	103,474,000	38,011,000	65,463,000
Machinery and equipment	5,283,144,000	3,218,408,000	2,064,736,000
Balance at December 31, 1970	10,203,991,000	4,689,821,000	5,514,170,000

Investments in nonconsolidated subsidiaries and affiliates
This item includes loans and other long-term receivables totaling f 838,391,000; the interest received on this amount is comprised in the Statement of Results under "Other income and charges". Current accounts receivable from these companies are included under "Trade receivables".
Investments in nonconsolidated subsidiaries and affiliates include the 99.5% interest in the NKF GROEP N.V.; this interest is included at acquisition price, plus the income earned since June 1, 1970.

Sundry noncurrent assets

Loans	156,636,000
Securities not officially listed	48,786,000
Sundry assets not immediately realizable	174,840,000
	380,262,000

The item "Sundry assets not immediately realizable" includes the difference between the amount that will be received from holders of option certificates of Pye Holdings Ltd. (14 shillings per share) upon exercise of these options, and the tangible net asset value of the investment. Option rights still outstanding may be exercised in the years 1971 through 1973. Also included is the difference between 14 shillings and the tangible net asset value per share of 3,627,108 shares in Pye Holdings Ltd. These shares held by Philips are not intended to be a permanent holding; after all options have been exercised the interest will be limited to 52.5%.

Inventories
Inventories were increased in 1970 by f 137,406,000 to the credit of the Revaluation Surplus.

Accounts receivable
• Trade receivables
This item includes amounts owing under instalment-sales contracts totaling f 344,384,000 and current accounts receivable from nonconsolidated subsidiaries and affiliated companies totaling f 261,826,000.

Liquid assets
• Marketable securities
This item includes f 3,379,030 in common stock of N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken. The market value of the total holding of securities is f 92,432,000.

Stockholders' equity

	Common capital stock (issued)	6% Cum. part. pref. capital stock (issued)	Additional paid-in capital
Balance at January 1, 1970	1,168,523,000	3,086,000	445,457,000
Exchange of 6% cum. part. preferred stock for common stock	1,029,000	– 3,086,000	2,057,000
Issued common stock in respect of new participations:			
NKF GROEP N.V.	26,020,000		128,466,000
Felten & Guilleaume Carlswerk AG	18,000,000		92,909,000
Conversion of 4¾% convertible U.S. dollar debentures	17,000		87,000
Conversion of 5% convertible personnel debentures	19,000		99,000
Balance at December 31, 1970	1,213,608,000	—	669,075,000*
Total capital stock and additional paid-in capital as specified above			1,882,683,000
Retained earnings			
Balance at January 1, 1970			
Retained earnings N.V. Philips	2,270,115,000		
Beneficiaries' interest in U.S. Philips Trust	569,687,000	2,839,802,000	
Changes in 1970			
Retained earnings N.V. Philips	177,384,000		
Increase in net worth of U.S. Philips Trust	15,534,000	192,918,000	
Balance at December 31, 1970			
Retained earnings N.V. Philips	2,447,499,000		
Beneficiaries' interest in U.S. Philips Trust	585,221,000		3,032,720,000
Revaluation surplus			1,408,172,000
Total stockholders' equity			6,323,575,000

* Additional paid-in capital includes an amount of f 490,305,000, free from Netherlands taxation.

Sundry provisions

The provision for latent tax liabilities and the provision for pension commitments not underwritten by third parties are included under this heading.

Noncurrent liabilities

Convertible debenture loans		
4¾% convertible U.S. dollar debentures	361,841,000	
5¾% convertible Sterling debentures	139,040,000	
6½% convertible debentures	172,117,000	
5% convertible personnel debentures	10,862,000	
6% convertible personnel debentures	6,172,000	
6% convertible DM personnel debentures	16,226,000	
4% convertible debentures North American Philips Corporation (convertible into common stock of N.A.P.)	73,806,000	780,064,000
Other debenture loans		497,436,000
Private loans		
Bank loans	1,299,377,000	
Other loans	861,064,000	
	2,160,441,000	
Participating personnel debentures	241,802,000	
Mortgages	83,510,000	
Others	114,473,000	2,600,226,000
Balance at December 31, 1970		3,877,726,000

Under "Noncurrent liabilities" an amount of f 2,124,174,000 will become payable in the next five years. The part of these liabilities which becomes payable in 1971 is included under "Current liabilities".

The average interest rate on other debenture loans at the end of 1970 was 5¾% and on private loans 7.9%.

The personnel debentures, though redeemable on demand, are in fact in the nature of long-term loans.

Current liabilities
• Bank credits
This item includes the part of long-term bank loans falling due in 1971.
• Accounts payable
This item includes short-term loans, and amounts totaling f 117,074,000 due to nonconsolidated subsidiaries and affiliates.

Guarantees and other contingent liabilities
Contingent liabilities in respect of guarantees on behalf of third parties and nonconsolidated companies amount to f 970,544,000; the other contingent liabilities, including long-term lease commitments, amount to f 342,051,000.

Information for American Stockholders

The accounting principles customarily followed by N.V. Philips' Gloeilampenfabrieken for the calculation of income differ in several respects from those generally accepted in the United States. For the convenience of American readers an attempt is therefore made below to estimate what adjustment to net income would be required if the principles generally accepted in the United States were employed. The replacement value method has been compared with historical cost for fixed assets and with historical cost on a first-in first-out basis for inventories.

	in thousands of Neth. guilders	in thousands of U.S. dollars
Net income 1970 shown in the Combined Statement of Results	435,061	120,183
Deduct:		
Profit-sharing with Supervisory Board, Board of Management and officers, and employees	– 35,829	– 9,898
Adjustment of net income on the basis of accounting principles generally accepted in the United States	113,565	31,372
Adjusted net income	512,797	141,657
Number of common shares (par value f 10) of N.V. Philips' Gloeilampenfabrieken issued at December 31, 1970	121,360,782	
Per common share of N.V. Philips' Gloeilampenfabrieken (par value f 10):		
Adjusted net income	f 4.23	$ 1.17
Dividend (see note on page 1)	f 1.70	$ 0.47

Assuming conversion of all outstanding convertible debentures, the adjusted net income per common share would be f 4.02 ($ 1.11).

If the method of historical cost had been applied in the past, it is estimated that the Revaluation Surplus, as shown in the Combined Statement of Financial Position as at December 31, 1970, would have appeared as follows:

	in thousands of Neth. guilders	in thousands of U.S. dollars
Addition to retained earnings	901,692	249,086
Deduction from property, plant and equipment and inventories	506,480	139,912
	1,408,172	388,998

Balance Sheet
of N.V. Philips' Gloeilampenfabrieken

	1970		1969	
Property, plant and equipment				
Replacement value	2,752,085,000		2,335,298,000	
Accumulated depreciation	– 1,385,390,000	1,366,695,000	– 1,184,240,000	1,151,058,000
Intangible assets		—		—
Investments in subsidiaries and affiliates				
Consolidated companies	6,877,861,000		5,330,524,000	
Nonconsolidated companies	901,560,000	7,779,421,000	349,619,000	5,680,143,000
Sundry noncurrent assets		53,491,000		75,613,000
Inventories				
Factory inventories	789,520,000		605,459,000	
Commercial inventories	470,506,000	1,260,026,000	252,400,000	857,859,000
Accounts receivable				
Trade and other receivables	288,869,000		266,244,000	
Prepaid expenses	83,138,000	372,007,000	37,348,000	303,592,000
Liquid assets				
Marketable securities	1,966,000		15,053,000	
Cash	182,935,000	184,901,000	126,632,000	141,685,000
		11,016,541,000		8,209,950,000

Income Statement
of N.V. Philips' Gloeilampenfabrieken

	1970	1969
Income, including income from subsidiaries and affiliates, after foreign taxes	491,987,000	554,010,000
Netherlands tax on income	72,460,000	104,693,000
Net income	419,527,000	449,317,000

Eindhoven, March 18, 1971.

The Supervisory Board

The Board of Management

Amounts in guilders

	1970		1969	
Stockholders' equity				
Common capital stock	1,213,608,000		1,168,523,000	
6% Cum. part. pref. capital stock			3,086,000	
Additional paid-in capital	669,075,000		445,457,000	
Retained earnings	2,447,499,000		2,270,115,000	
Revaluation surplus	1,408,172,000	5,738,354,000	1,091,225,000	4,978,406,000
Sundry provisions				
Long-term	645,866,000		468,055,000	
Short-term	65,933,000	711,799,000	53,641,000	521,696,000
Noncurrent liabilities				
Convertible debentures	550,992,000		374,106,000	
Other debentures	220,626,000		224,376,000	
Other noncurrent liabilities	2,068,402,000	2,840,020,000	817,821,000	1,416,303,000
Current liabilities				
Bank credits	314,337,000		275,704,000	
Accounts payable and accrued taxes	989,955,000		624,414,000	
Accrued expenses	179,933,000	1,484,225,000	130,368,000	1,030,486,000
Income available for distribution		242,143,000		263,059,000
		11,016,541,000		8,209,950,000

Income Appropriation

of N.V. Philips' Gloeilampenfabrieken

	1970
In accordance with articles 45 and 47 of the Articles of Association	
Transfer to Retained Earnings	178,000,000
It is proposed that a dividend be declared of f 1.70 per common share of f 10.	206,313,329
At their option, stockholders may receive, instead of the final dividend of f 1.10 in cash, a distribution in the form of common shares, chargeable to Additional Paid-in Capital, free from Netherlands taxation, such that one common share of f 10 is distributed on 36 common shares of f 10. In so far as stockholders opt to receive common shares, the amount not distributed in cash will be retained by way of reserve.	
Supervisory Board, Board of Management and officers	10,522,632
Employees	25,306,580
Change in undistributed income	— 615,541
Net income	419,527,000

Explanatory Notes to the Balance Sheet

of N.V. Philips' Gloeilampenfabrieken

The principles of valuation and of calculating income will be found on page 38.

Property, plant and equipment	replacement value	depreciation	book value
Vacant sites	33,086,000	—	33,086,000
Land and buildings	1,341,821,000	483,311,000	858,510,000
Houses and land	18,725,000	14,220,000	4,505,000
Machinery and equipment	1,358,453,000	887,859,000	470,594,000
	2,752,085,000	1,385,390,000	1,366,695,000

Investments in subsidiaries and affiliates

Consolidated investments are included at their tangible net asset value, the assets and liabilities of these companies being valued in accordance with the aforementioned principles.

As in the previous year, the part of the investment in Pye Holdings Ltd. in respect of which holders of option certificates can exercise options in the years 1971 through 1973 is taken up at the amount of 14 shillings per share which will be received upon exercise of these options. Also included is the difference between 14 shillings and the tangible net asset value per share of 3,627,108 shares in Pye Holdings Ltd. These shares held by Philips are not intended to be a permanent holding; after all options have been exercised the interest will be limited to 52.5%.

Receivables from consolidated companies are included under this heading.

Also included under this heading are some loans totaling f 313 million made by N.V. Philips' Gloeilampenfabrieken indirectly to consolidated companies through the intermediary of third parties.

Nonconsolidated investments are included at an amount not exceeding their tangible net asset value. The 99.5% interest in NKF GROEP N.V. is included at acquisition price, plus the income earned since June 1, 1970.

In 1970 the value of the investments in subsidiaries and affiliates was increased by f 307,531,000 as a result of revaluation.

Accounts receivable

This item includes trade receivables totaling f 66,330,000 (f 70,519,000 last year) due from companies belonging to the United States Philips Trust, and current accounts receivable from nonconsolidated companies totaling f 48,545,000.

Liquid assets

• Marketable securities

This item includes f 471,620 in common stock of N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken.

The market value of the total holding of securities is f 3,725,000.

Stockholders' equity

Common capital stock (authorized f 3,000 million)		
Issued at December 31, 1970		1,213,608,000
Additional paid-in capital		
Balance at December 31, 1970		669,075,000
Retained earnings		
Balance at January 1, 1970	2,270,115,000	
Retained earnings 1970	178,000,000	
Change in undistributed income	— 616,000	
Balance at December 31, 1970		2,447,499,000
Revaluation surplus		
Balance at January 1, 1970	1,091,225,000	
Increase	316,947,000	
Balance at December 31, 1970		1,408,172,000
Total		5,738,354,000

• A specification of the changes in 1970 and explanatory notes will be found on page 40. Additional paid-in capital includes an amount of f 490,305,000, free from Netherlands taxation.

Noncurrent liabilities

The part of noncurrent liabilities which falls due in 1971 is included under "Current liabilities". The item "Convertible debentures" includes an amount of f 10,862,000 in issued 5% convertible personnel debentures and an amount of f 6,172,000 in issued 6% convertible personnel debentures; "Other noncurrent liabilities" includes an amount of f 228,137,000 in participating personnel debentures. The personnel debentures, though redeemable on demand, are in fact in the nature of long-term loans.

Current liabilities

• Bank credits

This item includes the part of long-term bank loans falling due in 1971.

• Accounts payable and accrued taxes

This item includes short-term loans, and amounts totaling f 62,397,000 payable to nonconsolidated subsidiaries and affiliates.

Auditors' Report

We have examined the Financial Statements for the year 1970 of N.V. Philips' Gloeilampenfabrieken and of N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken. With respect to certain subsidiaries and affiliates, mainly outside Europe, we have also made use of the reports of other auditors.

In our opinion, the accompanying Financial Statements of N.V. Philips' Gloeilampenfabrieken and of N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken present fairly these companies' financial position at December 31, 1970, and their results for the year 1970.

We have also examined the Combined Statements of Financial Position and of Results, which combine the consolidated financial statements for the year 1970 of N.V. Philips' Gloeilampenfabrieken and of the United States Philips Trust. In conducting our examination we have also made use of the other auditors' reports referred to above. As regards the consolidated financial statements of the United States Philips Trust we have relied on the report, dated February 19, 1971, of Messrs. Smith and Harder, Certified Public Accountants, New York.

In our opinion, the accompanying Combined Statements present fairly the combined financial position at December 31, 1970, and the combined results for the year 1970.

Eindhoven, March 18, 1971. KLYNVELD, KRAAYENHOF & CO.

Annual Report of N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken

We present herewith our Report for the fiscal year 1970. The Balance Sheet as of December 31, 1970, and the Income Statement for the year ended on that date have been examined by Messrs. Klynveld, Kraayenhof & Co., Registered Accountants. Their report appears on page 45. We ask you to approve these accounts.

Upon adoption by the General Meeting of Stockholders of the proposals made by the Supervisory Board and the Board of Management of N.V. Philips' Gloeilampenfabrieken in items 4 and 5 of the Agenda (see page 48) corresponding proposals can be made to holders of our common shares. We recommend in that case the declaration of a dividend for the fiscal year 1970 of f 1.70 per common share of f 10. On January 6, 1971, an interim dividend of f 0.60 was made payable on the common shares. Consequently the final dividend amounts to f 1.10 per common share of f 10, less 25% dividend tax. We also recommend that stockholders be given the option to receive, instead of the final dividend in cash, a distribution in the form of common shares, in such a way that one common share of f 10 is distributed on 36 common shares of f 10. Priority stockholders will be paid a dividend of 4%, less 25% dividend tax.

At the Annual General Meeting of Stockholders on April 23, 1970, Mr. W. A. de Jonge was re-elected to our Board.

On March 17, 1970, a press communiqué was issued relating to an exchange offer for the acquisition of all shares, depositary receipts for such shares and "actions de jouissance" of the NKF GROEP N.V. To meet the proposals stated in this offer the Board of Management decided on April 6, 1970, subject to the approval of the Meeting of Priority Stockholders and in consultation with the Board of Management of N.V. Philips' Gloeilampenfabrieken, to issue the number of common shares required for this offer (maximum f 50,887,080 at par), under the conditions stated in the exchange offer and in the prospectus, dated April 6, 1970.

A proposal to alter article 4, paragraph 2, of the Articles of Association, in connection with the offer concerning the exchange of preferred shares for common shares, was adopted at the Annual General Meeting of Stockholders on April 23, 1970.

On September 3, 1970, the Board of Management, having received the approval of the Meeting of Priority Stockholders, decided to authorize the issuance of as many common shares in the capital of the Company as are needed to permit the conversion of convertible personnel debentures to be issued by N.V. Philips' Gloeilampenfabrieken and by its affiliated companies. This issue will take place as and when such debentures are presented and accepted for conversion.

At the Extraordinary General Meeting of Stockholders held on October 30, 1970, it was decided to alter the Articles of Association to allow the replacement of the preferred shares by common shares. This alteration arose from the above-mentioned offer relating to the exchange of preferred shares for common shares.

Mr. F. J. Philips retires by rotation this year and is eligible and available for re-election.

Eindhoven, March 18, 1971.

The Board of Management

F. J. Philips	Chairman
T. P. Tromp	Secretary
W. A. de Jonge	
H. J. R. G. Hartong	
H. A. C. van Riemsdijk	

Balance Sheet, December 31, 1970

Investments		
Common stock N.V. Philips' Gloeilampenfabrieken		1,213,372,000
Accounts receivable		
N.V. Philips' Gloeilampenfabrieken current account	1,648,000	
N.V. Philips' Gloeilampenfabrieken dividend account	206,273,000	207,921,000
		1,421,293,000

Capital		
Common capital stock	1,213,372,000	
Priority capital stock	50,000	1,213,422,000
Accounts payable		
Unclaimed dividends		1,596,000
Income available for distribution		
Dividend		206,275,000
		1,421,293,000

Explanatory notes to the Balance Sheet
Investments are shown at the nominal value of the common stock; accounts receivable are the balances of the current and dividend accounts.
The changes under "Capital" with respect to 1969 reflect the changes in common capital stock and in the 6% cumulative participating preferred capital stock of N.V. Philips' Gloeilampenfabrieken (see the explanatory notes on pages 44 and 40).

Income Statement for 1970

Balance		206,275,000	Dividends from investments 206,273,000
			Interest 2,000
		206,275,000	206,275,000

With reference to the proposed income appropriation of N.V. Philips' Gloeilampenfabrieken on page 43 it should be noted that it has been assumed in drawing up these annual accounts that a cash dividend of f 1.70 would be paid on all common shares. In so far as holders of common shares opt for a dividend in the form of common shares, the amount not distributed in cash will be retained by way of reserve by N.V. Philips' Gloeilampenfabrieken, in which case the relevant items of the annual accounts should be modified accordingly.

Eindhoven, March 18, 1971.

The Board of Management

Amounts in guilders

Agenda

For the Annual General Meeting of Stockholders to be held at Philips' Jubilee Hall (Jubileumhal) in Eindhoven, on Thursday, April 29, 1971, at 2.30 p.m.

N.V. Philips' Gloeilampenfabrieken

1 Opening.

2 Report of the Board of Management for the fiscal year 1970.

3 Report of the Supervisory Board on the accounts for 1970.

4 Consideration of the Balance Sheet and Income Statement and declaration of a cash dividend of f 1.70 on the common shares; however a dividend of f 0.60 is declared on those common shares the holders of which have opted before November 30, 1971 to receive the alternative distribution of common shares, chargeable to Additional Paid-in Capital. In so far as stockholders opt for the latter distribution, the amount not distributed in cash will be retained by way of reserve.

5 Proposal of the Board of Management, which proposal has been approved by the Supervisory Board, to make a distribution of common shares, chargeable to Additional Paid-in Capital, in respect of those common shares the holders of which opt in accordance with item 4 of the agenda to receive such distribution of common shares, in such a way that one common share of f 10 is distributed on 36 common shares of f 10.

6 Announcement of the retirement on June 1, 1971, of Mr. F. J. Philips as President of the Company.

7 Proposal of the Supervisory Board and of the Board of Management to elect two Supervisory Directors to fill the vacancies resulting from the retirement, by rotation, of Mr. H. J. R. G. Hartong and Mr. T. P. Tromp, who are eligible and available for re-election.

8 Pursuant to their decision to increase the membership of the Supervisory Board to eleven, the Supervisory Board and the Board of Management propose that Mr. F. J. Philips be elected to the Supervisory Board as from June 1, 1971.

9 Any other business.

10 Conclusion.

N.V. Gemeenschappelijk Bezit van Aandeelen Philips' Gloeilampenfabrieken

1 Opening.

2 Report of the Board of Management for the fiscal year 1970.

3 Consideration of the Balance Sheet and Income Statement and declaration of a cash dividend of f 1.70 on the common shares; however a dividend of f 0.60 is declared on those common shares the holders of which have opted before November 30, 1971 to receive the alternative distribution of common shares.

4 Proposal of the Board of Management, which proposal has been approved by the Meeting of Priority Stockholders and which is made pursuant to the corresponding proposal to be dealt with at the Annual General Meeting of Stockholders of N.V. Philips' Gloeilampenfabrieken, to make a distribution of common shares amounting to one share of f 10 on 36 common shares of f 10 in respect of those common shares the holders of which opt in accordance with item 3 of the agenda to receive such distribution of common shares.

5 Proposal to elect a member of the Board of Management to fill the vacancy resulting from the retirement, by rotation, of Mr. F. J. Philips, who is eligible and available for re-election. The nominations put forward by the Meeting of Priority Stockholders are:

1. Mr. F. J. Philips
2. Mr. P. H. le Clercq.

6 Any other business.

7 Conclusion.

Philips from 1961 to 1970

General	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
Sales	**15,070**	13,023	9,721	8,695	8,069	7,545	7,002	6,224	5,535	4,936
Increase over preceding year	**2,047**	1,427	1,026	626	524	543	778	689	599	174
Percentage increase over preceding year	**16**	12	12	8	7	8	12	12	12	4
Net income	**435**	518	439	355	347	399	405	366	343	326
Percentage increase over preceding year	**–16**	19	24	2	–13	–2	11	7	5	–18
Rate of total capital turnover	**0.96**	0.97	0.91	0.85	0.82	0.85	0.88	0.86	0.83	0.86
Employees (in thousands) at end of year	**359**	339	265	241	244	252	252	234	233	226
Wages, salaries and other related costs	**5,890**	4,913	3,621	3,234	3,076	2,833	2,509	2,146	1,978	1,745

Income	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
Income from operations	**1,280**	1,354	1,121	901	862	908	935	826	767	731
As a percentage of sales	**8.5**	10.4	11.5	10.4	10.7	12.0	13.4	13.3	13.9	14.8
As a percentage of total capital employed	**8.2**	10.1	10.5	8.8	8.8	10.2	11.7	11.4	11.5	12.8
Income after taxes	**446**	528	424	341	335	401	412	372	347	326
As a percentage of sales	**3.0**	4.1	4.4	3.9	4.2	5.3	5.9	6.0	6.3	6.6
Net income	**435**	518	439	355	347	399	405	366	343	326
As a percentage of stockholders' equity	**7.3**	9.7	8.8	7.5	7.5	9.2	10.1	9.8	10.9	12.5
Per f 10 share of common stock (in guilders)	**3.29**	4.09	3.86	3.04	3.01	3.47	3.72	3.50	3.44	4.22
Income taxes	**445**	526	431	329	315	347	389	337	306	313
As a percentage of income	**50**	50	50	49	48	46	49	47	47	48
Retained earnings	**193**	255	210	126	125	170	206	175	161	180
As a percentage of net income	**44**	49	48	36	36	43	51	48	47	55
Dividend										
Per f 10 share of common stock (in guilders)	**1.70**	1.90	1.80	1.80	1.60	1.80	1.60	1.60	1.60	1.60

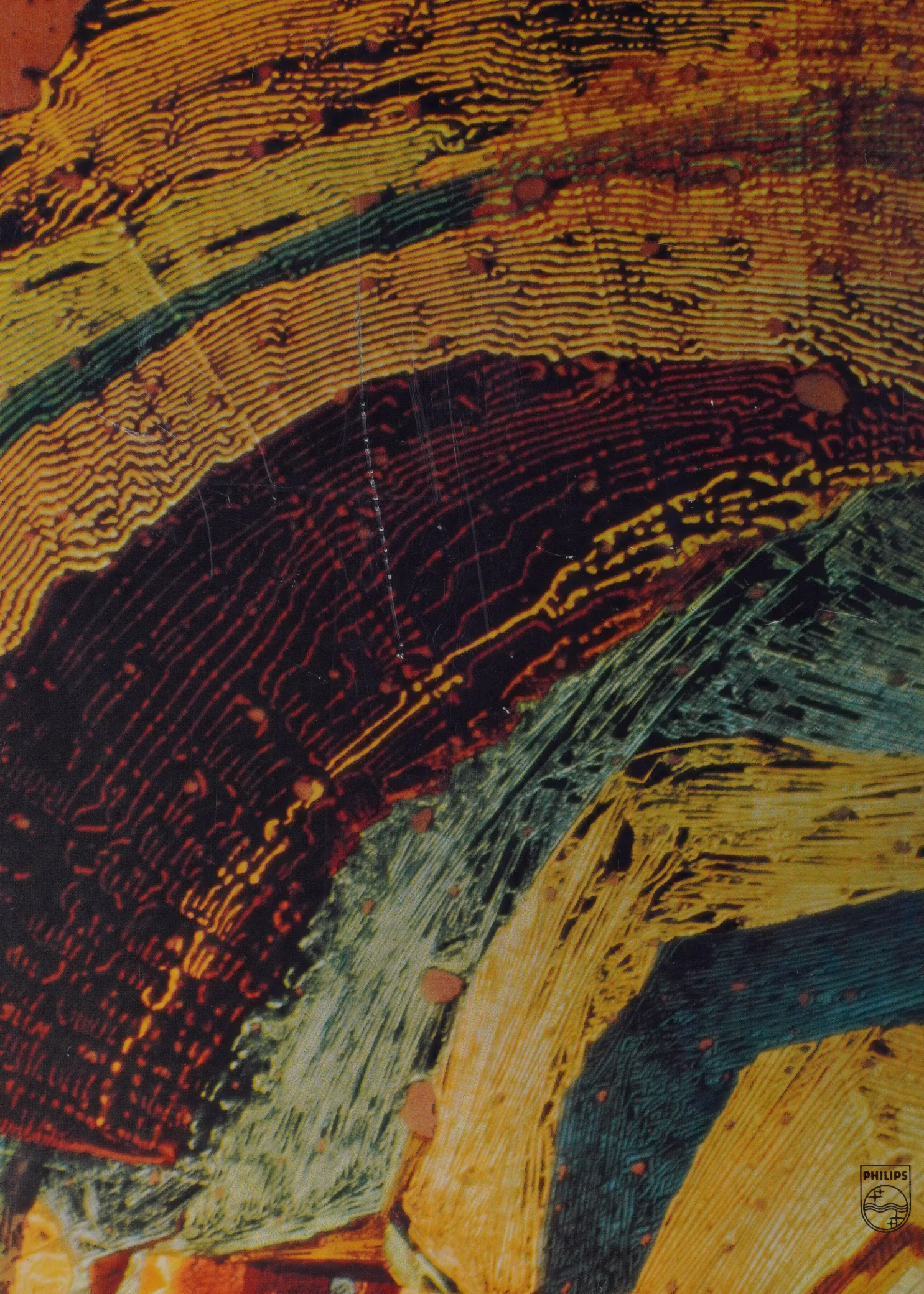
• In calculating the ratios the averages are taken of the total capital employed (excluding investments in nonconsolidated subsidiaries and affiliates) and of stockholders' equity, at the beginning and end of the year.
• In the years 1959 through 1965 a distribution of common stock was made, charged to Additional Paid-in Capital, amounting to 5% to holders of common stock. In 1969 a similar distribution was made, amounting to 10%, charged to Additional Paid-in Capital.
• At the same time as the distribution of the dividend for 1966 the U.S. Philips Trust made a distribution of U.S.$ 0.05 per common share of f 10.
• For 1970 stockholders may receive, instead of the final dividend of f 1.10 in cash, a distribution in the form of common shares chargeable to Additional Paid-in Capital, free from Netherlands taxation, such that one common share of f 10 is distributed on 36 common shares of f 10.
• For calculating the net income per f 10 share of common stock the amounts distributed to others entitled to a share in the income are deducted from the net income figure.

Amounts in millions of guilders

Financial position	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
Common capital stock	**1,214**	1,169	1,017	1,017	1,017	1,017	968	920	875	685
Preferred capital stock	**–**	3	144	144	144	144	144	144	144	144
Additional paid-in capital	**669**	445	456	456	456	456	506	553	598	88
Retained earnings	**3,033**	2,840	2,585	2,375	2,249	2,124	1,954	1,748	1,573	1,412
Revaluation surplus	**1,408**	1,091	925	795	864	742	621	480	398	360
Stockholders' equity	**6,324**	5,548	5,127	4,787	4,730	4,483	4,193	3,845	3,588	2,689
Minority interests	**748**	681	237	171	166	151	145	124	112	91
Noncurrent liabilities and provisions	**5,324**	3,411	3,070	2,505	2,347	1,996	1,770	1,560	1,595	1,391
*Current liabilities and provisions**	**6,692**	5,606	3,899	3,627	3,537	3,247	2,697	2,265	2,055	2,080
Total liabilities	**12,016**	9,017	6,969	6,132	5,884	5,243	4,467	3,825	3,650	3,471
Total capital employed	**19,088**	15,246	12,333	11,090	10,780	9,877	8,805	7,794	7,350	6,251
Total liabilities as a percentage of total capital employed	**63**	59	57	55	55	53	51	49	50	56
Stockholders' equity per common share of f 10 (in guilders)	**52.11**	47.43	47.90	44.66	44.11	41.75	40.92	39.30	38.43	36.03

* This heading includes income available for distribution

Assets employed	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961
Property, plant and equipment (book value)	**5,514**	4,596	3,855	3,615	3,546	3,215	2,900	2,521	2,387	2,035
Other fixed assets	**2,407**	1,380	1,523	1,121	799	646	548	422	315	244
Total fixed assets	**7,921**	5,976	5,378	4,736	4,345	3,861	3,448	2,943	2,702	2,279
Inventories	**5,307**	4,207	2,935	2,775	3,046	2,849	2,481	2,050	2,062	1,880
Accounts receivable	**5,117**	4,264	3,286	2,836	2,648	2,383	2,147	1,989	1,723	1,548
Liquid assets	**743**	799	734	743	741	784	729	812	863	544
Current assets	**11,167**	9,270	6,955	6,354	6,435	6,016	5,357	4,851	4,648	3,972
Total assets	**19,088**	15,246	12,333	11,090	10,780	9,877	8,805	7,794	7,350	6,251
Property, plant and equipment Book value as a percentage of replacement value	**54**	53	54	55	56	57	58	58	60	60
Net acquisitions for year	**1,158**	715	481	503	563	535	506	442	496	472
Depreciation for year	**608**	549	461	420	388	351	305	277	245	209
Ratio of net acquisitions to depreciation	**1.9**	1.3	1.0	1.2	1.5	1.5	1.7	1.6	2.0	2.3
Inventories as a percentage of sales	**35**	32	30	32	38	38	35	33	37	38
Trade receivables Average turnover period (in months)	**2.8**	2.7	2.7	2.7	2.8	2.6	2.6	2.6	2.5	2.6
Ratio of current assets to current liabilities and provisions	**1.7**	1.7	1.8	1.8	1.8	1.9	2.0	2.1	2.3	1.9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